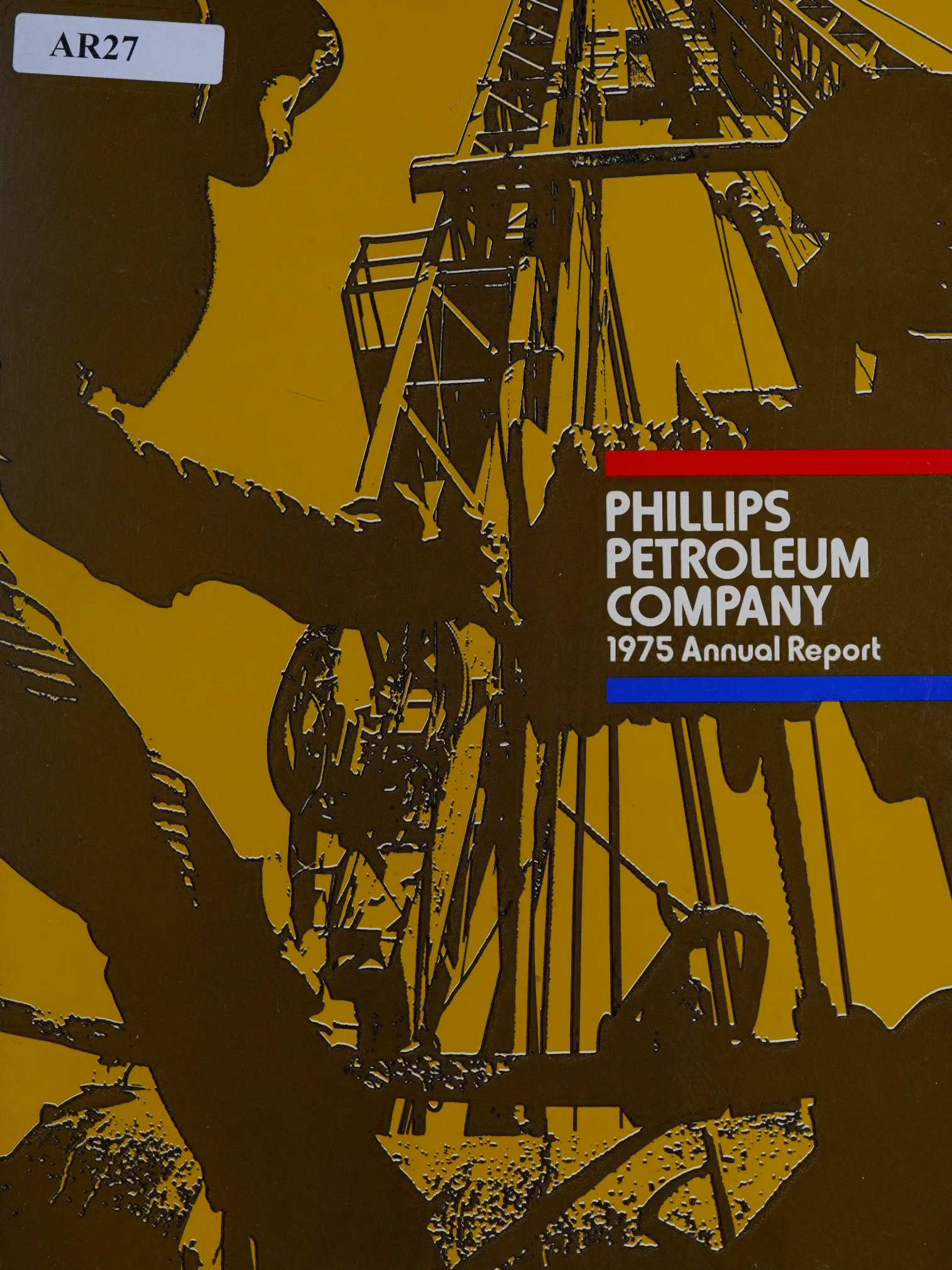
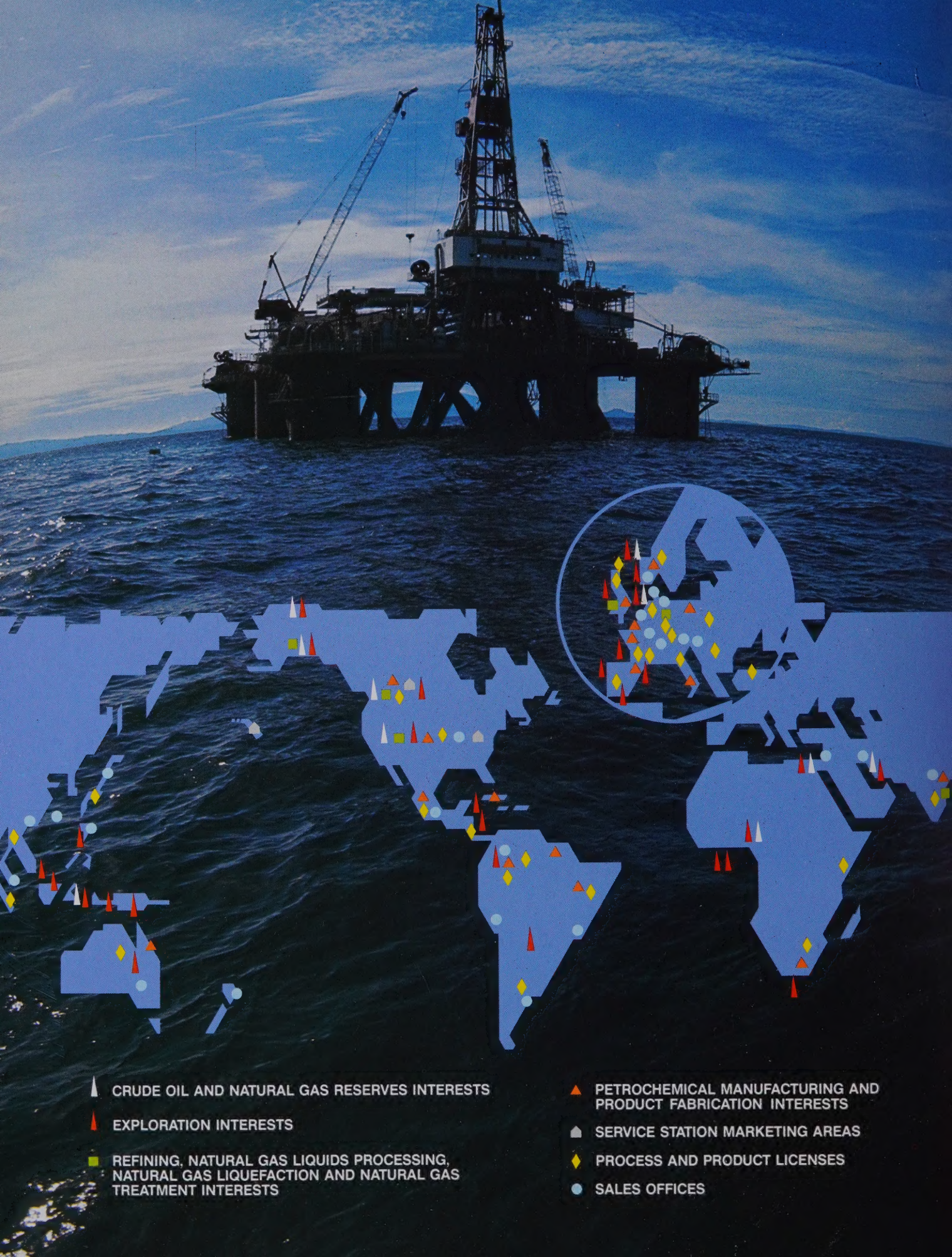




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**PHILLIPS
PETROLEUM
COMPANY**
1975 Annual Report



▲ CRUDE OIL AND NATURAL GAS RESERVES INTERESTS

▲ EXPLORATION INTERESTS

■ REFINING, NATURAL GAS LIQUIDS PROCESSING,
NATURAL GAS LIQUEFACTION AND NATURAL GAS
TREATMENT INTERESTS

▲ PETROCHEMICAL MANUFACTURING AND
PRODUCT FABRICATION INTERESTS

■ SERVICE STATION MARKETING AREAS

◆ PROCESS AND PRODUCT LICENSES

● SALES OFFICES

PHILLIPS IN BRIEF

Phillips Petroleum Company is 30,500 people engaged in every phase of the petroleum industry and in many chemical activities. They work on behalf of millions of customers, 126,900 stockholders and countless other people who indirectly own a stake in a company with assets exceeding \$4.5 billion.

Phillips search for energy is worldwide. The people of the Natural Resources Group, one of the Company's three major operating entities, conduct exploration in more than 20 countries and are responsible for developing and producing the oil and gas found thus far in seven countries. While oil and natural gas have been the focus of the Company's exploratory effort since its founding in 1917, today Natural Resources people also are engaged in the search for and development of new energy sources including uranium, coal and geothermal energy.

The people of the Petroleum Products Group operate our U.S. refineries, oversee our refining interests in three other countries and operate thousands of miles of pipelines plus ships, trucks and other facilities to distribute the Company's petroleum products. They market these products through some 17,700 outlets.

Chemicals Group people maintain Phillips as a major manufacturer of synthetic rubber, carbon black, polyolefin plastics, cyclohexane for nylon manufacture and other special hydrocarbons for industrial and laboratory uses. Chemicals Group people also manufacture and sell nitrogen fertilizer, synthetic fibers, fabricated plastic products, packaging and other specialized products. Their operations are in 16 countries, and their products are sold in more than 80 countries.

The work of the operating groups is enhanced by the efforts of several thousand employees engaged in numerous support functions. Phillips research people, for example, are instrumental in developing the new and improved products, processes and methods on which the Company's progress is based. For a number of years, Phillips has ranked first among oil companies in the number of U.S. patents issued annually. Our product and process know-how is licensed to others in 28 countries.

highlights

FINANCIAL	1975	1974
Total revenues	\$5,212,900,000	\$5,105,700,000
Income before cumulative effect of accounting change	\$ 342,600,000	\$ 429,700,000
Per average share outstanding .	\$ 4.50	\$ 5.66
Net income	\$ 342,600,000	\$ 402,100,000
Per average share outstanding .	\$ 4.50	\$ 5.30
Return on average total assets ...	8.3%	11.2%
Dividends paid	\$ 121,800,000	\$ 110,000,000
Per share	\$ 1.60	\$ 1.45
Average shares outstanding	76,146,000	75,870,000
Capital expenditures	\$ 729,200,000	\$ 627,500,000
Total assets at year-end	\$4,544,900,000	\$4,028,100,000

OPERATING* net barrels daily

Crude oil produced		
United States	118,000	123,000
Outside U.S.	128,000	91,000
Natural gas liquids produced	140,000	147,000
Total liquids produced	386,000	361,000
Crude oil refined	421,000	429,000
Petroleum products sold	658,000	648,000
Natural gas produced—net thousands of cubic feet daily ...	1,665,000	1,808,000

*Includes operating results, in proportion to the Company's stock interests, of nonsubsidiary companies owned 20% or more.

"Phillips," "the Company," "we" and "our" are used interchangeably in this report to refer to the business of Phillips Petroleum Company and its consolidated subsidiaries. Where reference is made to a particular company, it is wholly owned unless otherwise stated. The Company's consolidation policy is to include in financial statements the accounts of companies in which more than 50% interest is held. Where so indicated by footnote, operating data in this report also include the activities, in proportion to the Company's stock interests, of nonsubsidiary companies owned 20% or more. Otherwise, such data is excluded.

Driscopipe, Garden Scene, K-Resin, Marlex, Marvess, Polyslik and Quintess are trademarks for the Company's products named in this report.

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Your Company's ability to cope with economic adversity was put to the test in 1975. Although our performance was hampered by the most severe recession in three decades, earnings generally held up well in the face of lower product demand, increased taxation and higher operating costs. Furthermore, significant advances were made in strengthening our foundation for future earnings, particularly through enlarging and diversifying the Company's natural resources base.

Industry Developments

The worldwide economic slump was the primary factor in reducing petroleum demand. Fuel markets also were affected by higher prices, conservation efforts and warmer than normal winter weather.

Though industrywide petroleum demand declined by 2% in the U.S., domestic oil production declined even more. The difference was filled by imports, which accounted for more than a third of total petroleum supply. The steady downtrend in domestic natural gas production also furthered reliance on imported energy.

The price of foreign oil increased in October when members of the Organization of Petroleum Exporting Countries raised their posted prices by up to 10%. The price of domestic oil not under federal price controls also rose. The remaining U.S. production, about 60% of total domestic output, was held by price controls to the arbitrary limit of \$5.25 per barrel.

Equipment and material costs associated with finding and developing new reserves climbed twice as fast as the general inflation rate. Costs were also influenced by the industry's need to look for oil in more difficult and risky environments.

The petrochemical industry also was caught in the cross currents of rising costs and lower product demand. Markets for basic petrochemicals slumped by 14%. Demand firmed up late in the year, however, as the U.S. economy gained strength.

Taxation, both in the U.S. and abroad, continued to erode petroleum industry earnings. Over the last three years, governments of oil exporting nations have significantly increased their "take" per barrel of oil by imposing higher royalties and taxes. In this country, the federal government increased the industry's 1975 tax burden by an estimated \$2.5 billion by virtually eliminating the percentage depletion allowance.

Progress Toward Objectives

Important steps in meeting your Company's objectives were taken during the year. Our key objective of strengthening the Company's resource base was materially advanced by the addition of oil reserves overseas and coal, uranium and geothermal reserves in the U.S. Our domestic developments were, of course, of particular importance in light of the national goal of fortifying the country's energy base.

The achievement of a second major corporate objective — the balancing of our worldwide crude production

with our refining requirements — also drew nearer. Though average daily oil production in 1975 fell short of meeting our refinery needs by about 36%, great strides toward closing the gap were made through our development program in the Norwegian North Sea.

Maintaining a reliable raw material base for our chemical operations was a third major objective furthered during the year. Of special note were programs to provide increased ethane output from our own natural gas facilities to supply feedstock for a scheduled doubling of our ethylene production by 1978. Projects to extract large quantities of natural gas liquids from our Norwegian North Sea production also moved forward.

Earnings for 1975 were \$342,600,000, or \$4.50 a share, compared with 1974 earnings of \$429,700,000, or \$5.66 a share, before an accounting change. Major factors in the earnings reduction were substantially higher income taxes and lower earnings from worldwide chemical operations. Partially offsetting these factors was a 17% increase in worldwide crude oil production, due entirely to rising North Sea output.

Capital expenditures in 1975 totaled \$729.2 million, or more than twice our earnings for the year. The Company's level of spending in the U.S. was about the same as that in 1974 while expenditures were substantially higher overseas as the Norwegian North Sea development program moved closer to completion. Our capital expenditures are estimated to be higher in 1976, primarily to meet continuing commitments in our North Sea development program, provide for the expansion of ethylene and other chemical production and continue construction of the Seaway and trans-Alaska pipelines.

Negotiations continued on the sale of our West Coast marketing and refining properties to The Oil Shale Corporation. Closing is scheduled for April 1, 1976.

Looking ahead, North Sea production will continue to grow as a major contributor to earnings, augmented in early 1977 by the beginning of natural gas deliveries to continental Europe. Rising prices for natural gas and natural gas liquids also should yield higher income despite a further decline in domestic production. The results from our chemical operations should continue to improve as the economic recovery gains momentum.

National Energy Indecision

Despite agreement throughout the federal government that the nation should move toward greater energy self-reliance, 1975 was a year of lost opportunities in the development of a unified national energy policy. The temporary downturn in energy demand plus the ready availability of imported oil, in effect, provided a breathing space in which to formulate major energy goals. But regression rather than progress was the dominant theme of energy legislation.

In the case of Phillips, the repeal of the oil percentage depletion allowance reduced our 1975 earnings by some \$37 million. Changes in the foreign tax credit provisions enacted during the year are expected to cut \$35 million to \$40 million from our 1976 earnings.

The Energy Policy and Conservation Act passed in late 1975 placed all U.S. oil production under price controls until 1978. The new law is at best a temporary setback for domestic energy development and a further step toward more reliance on overseas oil supplies.

Phillips intends to do the best it can to advance domestic energy development under the circumstances. We are encouraged by the provisions in the law that allow for gradual increases in domestic oil prices over a 40-month period. But it should be recognized that these administrated price increases will be subject to Congressional review and therefore vulnerable to unforeseen political influences. Future investment decisions must be weighed against this uncertainty.

The amount of energy available to consumers is directly related to the amount of money invested by energy companies in finding and developing new supplies. When the funds available to energy companies are reduced by higher taxes or by controls that hold energy prices below market levels, then investments for new supplies also must be reduced.

Continued assaults on the oil industry's ability to perform are anticipated in 1976. Congressional committees are considering methods for further increasing the industry's tax burden. Legislative efforts to break up the major integrated oil companies such as Phillips have been renewed, following several close votes in the Senate last year on such divestiture proposals. The impact on stockholders and consumers of a dismemberment of the oil industry was described in a special message mailed to stockholders with the March 1, 1976, dividend check.

Against the backdrop of seven years of worsening natural gas shortages, there has been much discussion in Congress recently about some relaxation of federal price controls on gas transported between states. Nevertheless, it appears that a stalemate has developed and no constructive legislation will be forthcoming in the near future. The inability of Congress to come to grips with the natural gas situation is unfortunate in light of forecasts that show a widening gap between supply and demand so long as government controls maintain natural gas, a premium fuel, at prices below those of competitive energy sources.

Meeting Future Capital Needs

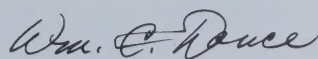
While the petroleum industry continues to demonstrate a strong financial commitment to the expansion of energy supplies, forecasts indicate that high levels of capital spending can only be sustained by strengthening the industry's profitability. Profits are, of course, both a source of investment capital and the magnet necessary to attract outside funds for investment. The adequacy of profits should be measured against the magnitude of the job that must be done — the new investments in raw material development, plants and distribution facilities that must be made if consumer needs are to be met.

Though the need for investment money is particularly acute in the energy industries, the "capital crisis" is a problem shared by virtually all American business. Each time government taxes away funds that could have been channeled to new investment, it is undermining its own intentions of speeding economic recovery and increasing employment. Profits mean new investment. And new investment means more jobs. When corporate tax provisions are modified to encourage — rather than discourage — new investments in raw materials, plants and product marketing, government will find the unemployment problem suddenly manageable.

Besides draining the job-generation power of industry, higher corporate taxation burdens the public with higher costs. Even though taxes are levied against industry, it is the public who pays them. You as a stockholder are penalized three ways . . . first when reduced corporate profits reduce the value of your investment, second when you pay income tax on dividends drawn from profits already taxed and third when higher taxation of industry is reflected in higher costs of the products you buy.

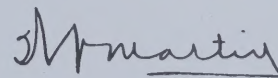
Solutions to economic and energy problems are being hampered by government policies that reduce investment incentives. But government policies can be changed. Your interaction with government — through voting and communicating with your elected representatives — can help shape the nation's future in this important Bicentennial year.

For the Board of Directors,



President and
Chief Operating Officer

March 23, 1976



Chairman and
Chief Executive Officer

Wm. C. Douce, president, and W. F. Martin, chairman, at Oklahoma's North Burbank Field, site of a new tertiary recovery program designed to drive additional oil from the 56-year-old field.



FIVE-YEAR SUMMARY OF REVENUES AND EARNINGS

	1975	1974	1973	1972	1971
(in millions)					
REVENUES					
Petroleum operations —					
United States	\$3,754.4	\$3,318.5	\$1,924.5	\$1,772.8	\$1,685.7
Outside U.S.	978.6	1,131.9	503.1	255.1	249.9
Chemical operations	1,208.5	1,486.1	964.7	700.0	605.4
Intergroup sales	(728.6)	(830.8)	(318.8)	(160.4)	(128.7)
Total revenues	<u>\$5,212.9</u>	<u>\$5,105.7</u>	<u>\$3,073.5</u>	<u>\$2,567.5</u>	<u>\$2,412.3</u>
EARNINGS					
Petroleum operations —					
United States	\$ 166.0	\$ 177.9	\$ 98.7	\$ 103.3	\$ 90.7
Outside U.S.	93.6	82.6	56.9	14.6	21.9
Chemical operations	83.0	169.2	74.8	30.5	19.7
Total earnings	<u>\$ 342.6</u>	<u>\$ 429.7*</u>	<u>\$ 230.4</u>	<u>\$ 148.4</u>	<u>\$ 132.3</u>

*Before cumulative effect of accounting change.

financial review

Operations in the United States accounted for \$4,262,100,000 or 82% of total revenues in 1975, and for \$237,400,000 or 69% of the year's net income.

Revenues rose 2% over the 1974 level.

Earnings for 1975 of \$342,600,000 were equivalent to \$4.50 per share compared with \$5.66 per share on 1974 earnings of \$429,700,000 (before adjustment for an accounting change by a partly owned company). On page 34 is a "Discussion of Earnings Fluctuations," covering material changes affecting earnings over the past two years.

Earnings for the fourth quarter of 1975 were \$104,400,000, or \$1.37 a share. This compared with earnings of \$84,500,000, or \$1.11 a share, in the 1974 period, when earnings were reduced \$9,300,000 by the combined effects of the writedown of the Company's fibers plant in Puerto Rico and the profit from sale of investments in Japan. The fourth quarter earnings

improvement resulted mainly from foreign petroleum operations, which benefited from rising North Sea oil production.

Assets at the end of 1975 totaled \$4,544,900,000, marking an increase of \$516,800,000 during the year. The rate of return on average total assets was 8.3% compared with 11.2% in 1974. Domestic operations produced a return of 8.4% in 1975 while foreign activities returned 8.2%.

Four quarterly dividends of 40 cents a share were paid, and dividend payments totaled \$121,800,000.

The trend of higher taxes at every level of domestic and foreign government continued. Total income taxes were \$409,400,000, equal to 54% of earnings before income taxes. Income taxes on domestic operations totaled \$162,500,000, equal to 41% of domestic earnings before income taxes, reflecting in part the abolishment in 1975 of the percentage depletion allowance on oil and certain gas production. Income taxes on foreign operations were \$246,900,000, equal to 70% of foreign pre-tax earnings.

Operating taxes such as property, oil and gas production and social security taxes amounted to \$93,800,000. When combined with income taxes, these operating taxes brought the Company's total direct tax cost to \$503,200,000, or \$6.61 per share, compared with \$1.60 per share paid in dividends. In addition, \$267,000,000 in taxes were collected on sales of gasoline and other petroleum products for city, state and federal governments.

Funds from operations, which dropped 5% from 1974, totaled \$723,900,000. This amount was not sufficient to cover dividends, debt repayment, capital expenditures and other requirements. Borrowings and sales of assets and stock primarily made up the difference of \$248,700,000.

In November, the Company sold through underwriters a \$250,000,000 issue of 8-7/8% debentures due 2000. New credits totaling approximately \$131,000,000 were obtained by the Phillips Group through British, French and Italian export credit agencies to fund the development phase of the Ekofisk area fields. Phillips has a 37% interest in the group's operations. Arrangements were made for approximately \$490,000,000 to finance the Ekofisk area transportation systems. Phillips has 18% interest in two companies and 37% interest in the two others owning the systems.

Capital expenditures in 1975 totaled \$729,200,000 or 16% more than in 1974. Of the

1975 expenditures, \$399,400,000 were applied to U.S. operations and \$329,800,000 to foreign operations. Distribution was as follows:

CAPITAL EXPENDITURES	Percent of total	
	1975	1974
Exploration and production	68	72
Manufacturing	14	17
Transportation	13	7
Marketing	1	2
Other	4	2
	100	100

At year-end, long-term debt outstanding (excluding the amount due within one year) totaled \$892,700,000, a 36% increase compared with the year earlier. In 1975, debt repayments totaled \$76,100,000 while borrowings were \$310,600,000.

The Company's common stock, its only class of voting securities, is traded principally on the New York Stock Exchange. The following table presents the high and low sales prices for Phillips common stock on the exchange and the dividends paid on the stock for each quarterly period during the past two years:

QUARTERLY PERIOD	PRICE PER SHARE		DIVIDENDS PER SHARE
	High	Low	
1975			
First	\$46-1/4	\$37	\$.40
Second	59-5/8	37-5/8	.40
Third	60-3/8	51-3/8	.40
Fourth	58-1/2	45-1/2	.40
1974			
First	71-3/8	45-1/4	.35
Second	56-3/8	48-5/8	.35
Third	49-3/8	32-1/2	.35
Fourth	51	31-5/8	.40

Comparative quarterly results are presented in the following table:

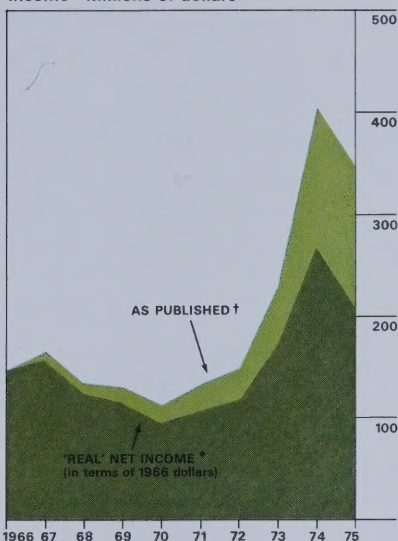
	QUARTER			
	First	Second	Third	Fourth
REVENUES (in millions)				
1975	\$1,222.9	\$1,292.7	\$1,315.1	\$1,382.2
1974	1,148.3	1,322.6	1,332.8	1,302.0
EARNINGS (in millions)				
1975	\$ 54.7	\$ 111.2	\$ 72.3	\$ 104.4
1974	108.5*	123.8	112.9	84.5
EARNINGS PER SHARE				
1975	\$.72	\$ 1.46	\$.95	\$ 1.37
1974	1.43*	1.63	1.49	1.11

*Before cumulative effect of accounting change.

Presented on pages 27-38 is comprehensive financial information, including 10-year financial and operating reviews.

Copies of the Company's annual 10-K Report filed with the Securities and Exchange Commission may be obtained by writing to Mr. Harvey W. Thompson, Secretary, Phillips Petroleum Company, Bartlesville, Oklahoma 74004.

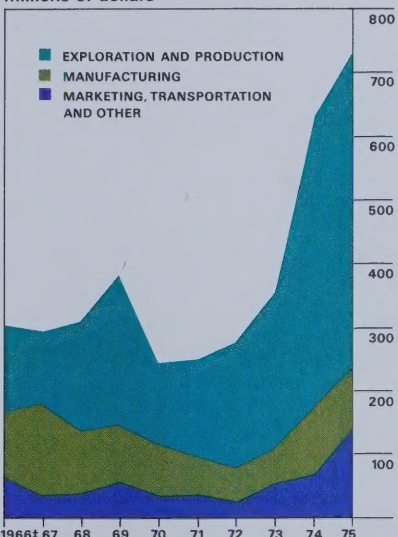
NET INCOME adjusted to 'real' net income—millions of dollars



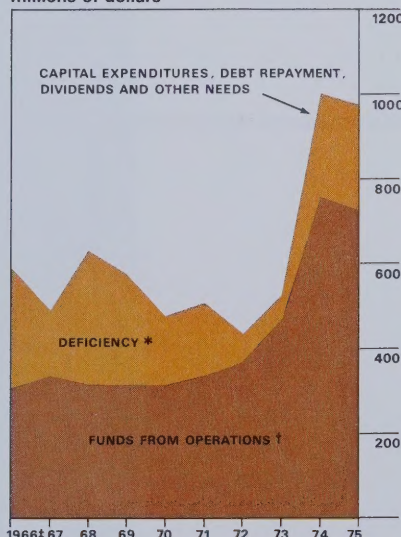
RETURN ON TOTAL ASSETS†* percent



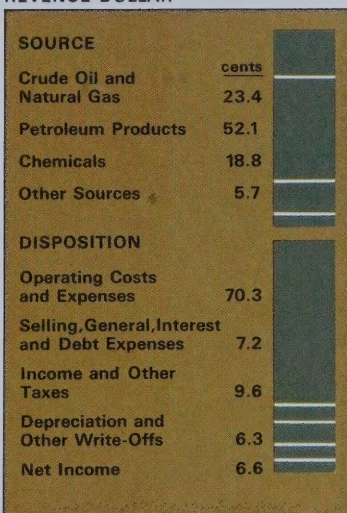
CAPITAL EXPENDITURES millions of dollars



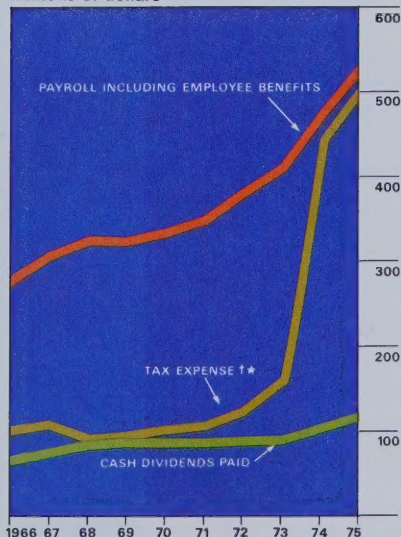
FUNDS AVAILABLE AND EXPENDED millions of dollars



SOURCE AND DISPOSITION OF 1975 REVENUE DOLLAR



PAYMENTS TO EMPLOYEES, TAXING AGENCIES AND STOCKHOLDERS millions of dollars



†Data for 1967, 1968, 1969, and 1970 have been restated to reflect the adoption in 1971 of equity accounting for investments.

*Based on GNP Deflator. Represents 4% average annual growth in 'real' net earnings.

*Made up by borrowings and sales of assets and stock.

†Excludes \$308,600,000 for Western U.S. Manufacturing and Marketing properties.

*Before extraordinary items and accounting change.

The Company's exploration and production activities around the world in 1975 were more extensive than ever before. Phillips remained vigorously competitive in its search for energy resources despite government-imposed uncertainties at home and abroad.

natural resources

Our primary thrust continued to be toward strengthening the Company's resource base through expansion of reserves of hydrocarbons and other energy sources and through the achievement of greater geographic diversification. Pursuit of this aim over the past several years was responsible for a 17% rise in net worldwide production of crude oil in 1975.

With oil production from the Norwegian North Sea steadily increasing, overseas output equaled domestic volume. Prices realized for domestic crude oil were higher, but prices for most foreign oils were lower.

LIQUID HYDROCARBONS PRODUCED	Net Barrels Daily	
	1975	1974
UNITED STATES		
Crude oil	118,400	123,500
Natural gas liquids	125,900	132,200
Total U.S.	244,300	255,700
OUTSIDE UNITED STATES		
Crude oil	118,600	79,500
Natural gas liquids	2,100	2,600
Total outside U.S.	120,700	82,100
WORLDWIDE		
Crude oil	237,000	203,000
Natural gas liquids	128,000	134,800
Total worldwide	365,000	337,800

Worldwide production of natural gas and natural gas liquids decreased primarily because of normal production declines in older U.S. fields. Norwegian North Sea production of these hydrocarbons is not scheduled to start until 1977. Revenues from natural gas sales increased 29%, primarily as a result of higher prices in domestic markets.

Phillips drilled or participated in 125 exploratory wells, resulting in 30 oil and gas discoveries and 95 dry holes. Despite advances in oil and gas finding techniques, exploratory risks have remained great as we have moved into "frontier" regions, where drilling is frequently more difficult and costly.

Capital and exploration expenditures to acquire, find and develop oil and gas reserves were \$507,200,000, an increase of 13% from 1974. Dry hole costs comprised \$114,700,000 of 1975 expenditures.

DRILLING STATISTICS	Exploratory		Development	
	1975	1974	1975	1974
UNITED STATES				
Gross wells	76	89	647	490
Net wells:				
Oil	5	5	101	83
Gas and gas condensate	6	8	45	27
Dry holes	33	40	26	26
Total	44	53	172	136
OUTSIDE UNITED STATES				
Gross wells	49	60	41	47
Net wells:				
Canada	3	3	1	1
Latin America	3	2	-	6
Europe	3	3	6	5
Africa	5	7	4	4
Middle East	2	4	-	-
Southeast Asia	5	5	1	-
Total	21	24	12	16
Oil	3	5	10	15
Gas and gas condensate	1	1	-	-
Dry holes	17	18	2	1

■ **Reserves** — At year-end, the Company's estimated owned recoverable petroleum reserves in the United States, including the North Slope of Alaska, were 696 million barrels of liquids (crude oil, condensate and natural gas liquids) and 5,334 billion cubic feet of gas. Our recoverable reserves in the rest of the world were estimated to be 1,114 million barrels of liquids and 5,883 billion cubic feet of gas. The reserves outside the U.S. include the Company's share of reserves subject to production-sharing contracts with foreign governments. Reserves of



Steam rising from Phillips first geothermal discovery indicates the energy potential of a well testing a large underground reservoir in southwestern Utah.

Pacific Petroleum Ltd. are not included, nor are the reserves of any other non-consolidated company. The Company's estimates include only reserves with producibility — based on current knowledge, technology and economics — that is assured to a reasonable degree. Not included are reserves which might result from extensions of existing petroleum fields. The data should be read with recognition that "recoverable reserves" cannot be measured precisely.

In addition to Phillips own reserves, 301 million barrels of liquids and 1,940 billion cubic feet of natural gas are estimated to be available to the Company in the U.S. through contracts and other arrangements. The liquids controlled by these arrangements account for the relatively high ratio of natural gas liquids to crude oil production reported by the Company.

■ **North Sea** — Crude oil production built up throughout the year in the Norwegian sector of the North Sea, where the initial 30-well Ekofisk Field development drilling program neared completion. Development drilling began in West Ekofisk, one of the six other fields in the area which will be linked by pipeline to the Ekofisk production complex. Continuous production without the winter weather interruptions experienced in the past was made possible through the startup in mid-October of a

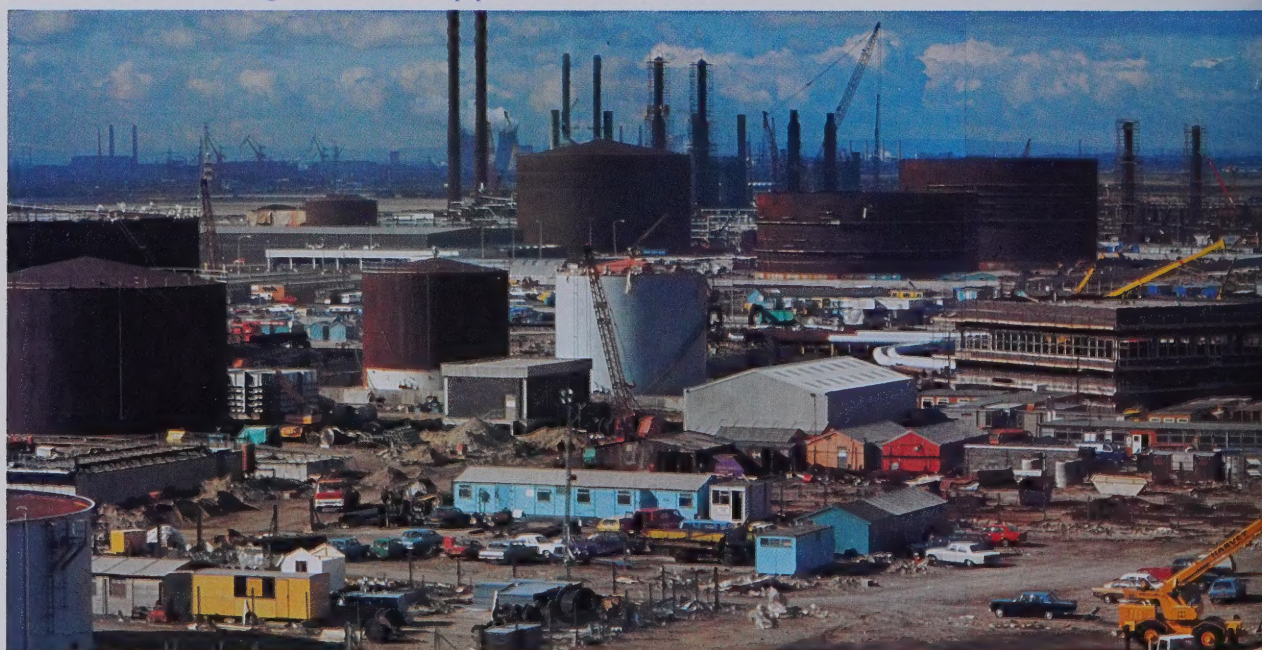
220-mile crude oil pipeline to a huge terminal at Teesside, England. Production exceeded 325,000 barrels per day until November 1, when a fire temporarily suspended operations at one of three platforms. The platform is expected to be back in operation in March 1976. For 1975 as a whole, Ekofisk production, in which Phillips has a 37% interest, averaged 190,000 barrels a day, up 155,000 barrels a day from the 1974 average.

We completed major construction phases of a 274-mile natural gas pipeline from the Ekofisk complex to Emden, West Germany, and a natural gas distribution center there. They will go into operation in early 1977 with completion of related facilities at the Ekofisk complex and the Teesside terminal.

A second contract for sale of Norwegian North Sea gas was signed with the same consortium that agreed earlier to purchase gas from four Ekofisk area fields. The new agreement provides for the European gas distribution consortium to purchase gas from the other three fields, commencing in early 1978. Gas deliveries under both contracts eventually will total about 1.7 billion cubic feet per day.

Exploration and development continued in the United Kingdom's sector of the North Sea, although affected by the uncertainty of British government actions relating to taxes, royalties

Though awaiting completion, this giant processing and terminal installation at Teesside, England, began receiving Ekofisk crude oil through an undersea pipeline in mid-October.



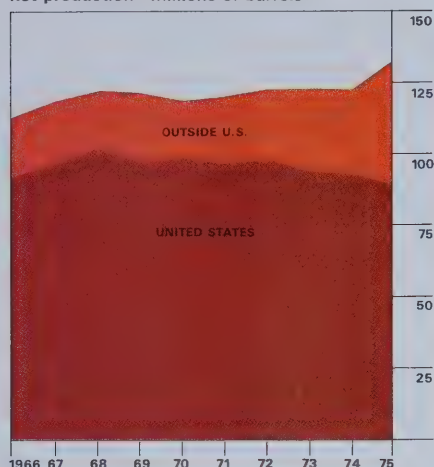
and participation. A discovery was made in the Mabel Field on acreage in which Phillips has a 34% interest. It tested in excess of 2,600 barrels of oil per day. In the Andrew Field, a confirmation well, in which the Company has a 35% interest, flowed in excess of 6,800 barrels of oil per day in tests.

Additional drilling was started and increased compression capacity was added to begin producing gas in the North-of-Hewett Field and maintain gas production in the Hewett Field.

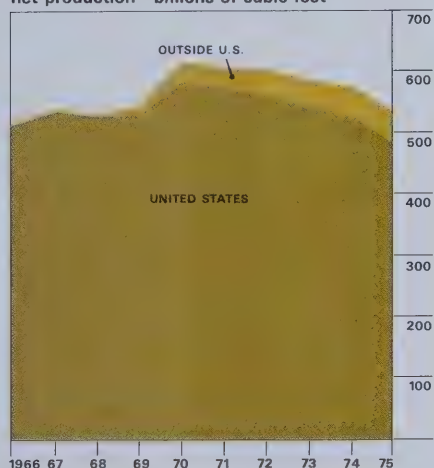
■ **Other International Activity** — In Nigeria, net production to our 22½% interest averaged 28,400 barrels of oil per day, 13% less than in the previous year. A 6,800 barrel per day net production increase was achieved late in the year following completion of two new pipeline spurs connecting two additional fields to the transportation system. Production during 1975 came from 10 of 24 fields discovered in the Nigerian Delta by Phillips and its partners.

Another major oil discovery in the 12,000,000-acre Teluk Berau production-sharing contract area in Irian Jaya, Indonesia, was followed by a confirmation well which flowed in excess of 20,000 barrels of oil per day. Three oil fields and a gas condensate field have been found in this area. Studies of the feasibility of beginning production from these fields were accelerated. In another area of Indonesia, the

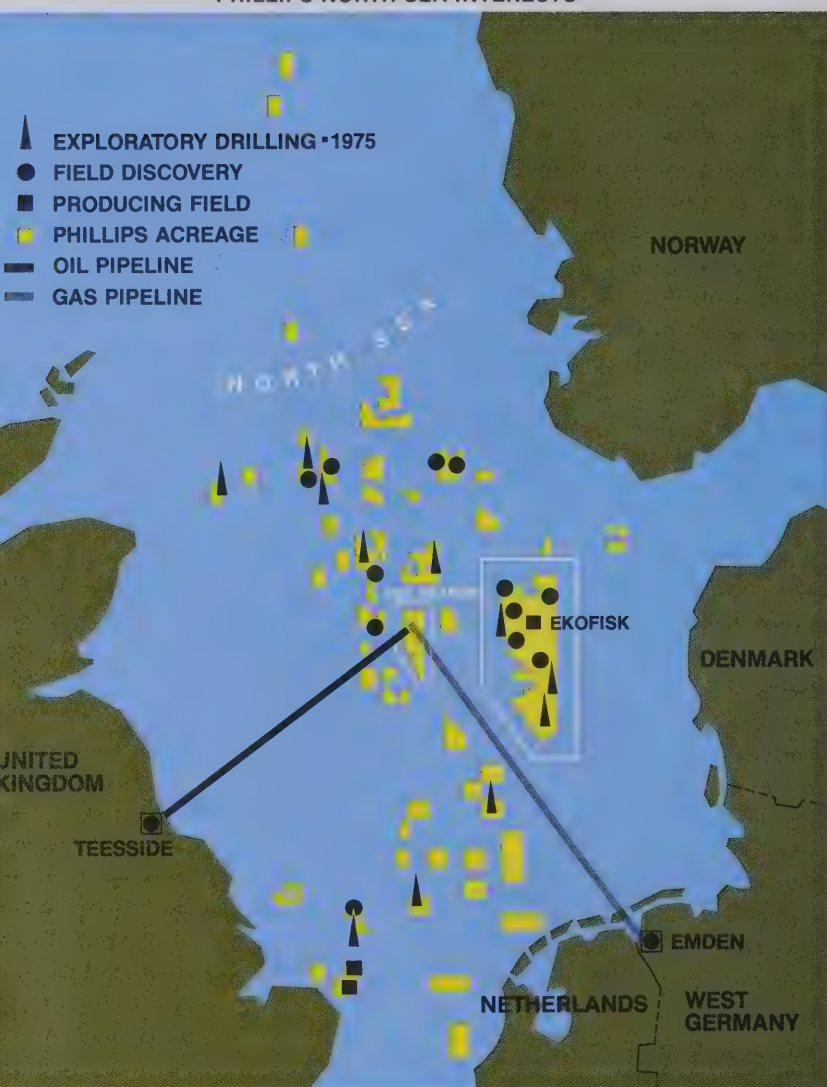
CRUDE OIL AND NATURAL GAS LIQUIDS
net production—millions of barrels



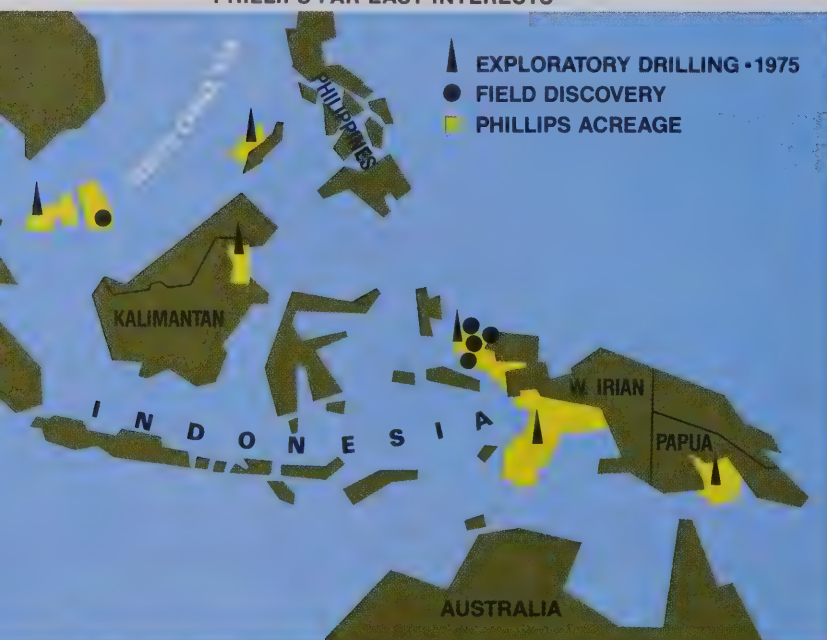
NATURAL GAS
net production—billions of cubic feet



PHILLIPS NORTH SEA INTERESTS



PHILLIPS FAR EAST INTERESTS



South China Sea, we began preliminary economic and processing studies of the development potential of a major gas field. A 33⅓% interest in an adjacent production-sharing contract area covering 1,300,000 gross acres was acquired.

Other major targets for future exploration obtained during the year included 4,400,000 Ivory Coast offshore acres covered by a 22½% interest production-sharing contract and two 50% interest offshore concessions in Nicaragua involving 3,200,000 acres.

The Company's relatively small production operations in Venezuela, along with all other private petroleum ventures there, were transferred to government ownership on December 31, 1975. Phillips accepted a settlement offer of about \$20,000,000, including \$3,500,000 in cash and the remainder in government bonds. Our net production of crude oil and natural gas liquids in Venezuela averaged 17,200 barrels daily in 1975.

NET OIL AND GAS ACREAGE AT YEAR-END

UNITED STATES	
Total	7,197,000
Developed	1,206,000
OUTSIDE UNITED STATES	
Canada	3,452,000
Latin America	12,228,000
Europe	1,457,000
Africa	7,994,000
Middle East	1,753,000
Southeast Asia	28,564,000
Australia	1,511,000
Total outside U.S.	56,959,000
Developed outside U.S.	119,000

■ **North America** — Our U.S. crude oil production continued to decline, reflecting an industry trend. The downtrend was inevitable inasmuch as the major known geological prospects in the United States, excluding Alaska and the offshore areas of the East, West and Gulf Coasts, have been explored and developed.

Phillips engaged in an active North American exploration and development program. In addition to 647 field development wells, the Company participated in 76 U.S. exploratory wells in 1975 compared to 89 in the previous year. The most important discoveries were two gas fields in Texas and an oil field offshore Louisiana.

Stimulated by higher prices for crude oil produced by new wells, field development drilling



A well flowing in excess of 20,000 barrels a day confirmed the Company's discovery of oil on Indonesia's equatorial Salawati Island.

Higher crude oil prices justified new drilling in old fields. Senior petroleum engineer Glenn Hagle inspects a drill bit used in a development well in the Texas Panhandle.



was stepped up in 1975. Higher prices made it feasible to return to older fields to drill less productive zones than the pay formations originally tapped and to develop small fields which formerly were not commercial. We conducted this type of drilling in 28 fields in land and offshore areas of the U.S.

Elsewhere in North America, the Company made a gas discovery in British Columbia, Canada, and continued geophysical studies in the Canadian Arctic Islands.

■ *Enhanced Oil Recovery* — Recoverable petroleum reserves can be increased when secondary and tertiary technology is used to force fields to give up more oil than can be obtained in normal primary production operations. In 1975, 37% of the Company's U.S. oil production came from fields using such enhanced recovery techniques as injecting natural gas, steam, water or other fluids into formations to force out hydrocarbons that otherwise would remain underground. During 1975, Phillips entered three induced recovery programs and was participating in a total of 389 programs at year-end.

We began the first full-scale application of a method to recover additional crude oil after secondary water-flooding of oil sand reservoirs. Developed by our Research and Development staff, the tertiary recovery technique is being evaluated in a joint venture with the federal Energy Research and Development Administration. The technique involves three successive injections into the oil-bearing formation — first fresh water, then a petrochemical detergent solution and, finally, a viscous solution containing polymers. We expect that about 600,000 barrels of tertiary oil will be recovered at the 90-acre test tract in the North Burbank Field in Osage County, Oklahoma. If the project is a technical and economic success, the process could be extended to a major portion of the 23,000-acre field to recover more than 50,000,000 barrels of tertiary oil. The technique also has potential application in many other U.S. fields.

■ *Canadian Affiliate* — Pacific Petroleum Ltd., a 48% owned integrated Canadian company with an active exploration program, made 25 net oil and gas discoveries and drilled 172 net successful development wells in 1975. Its production included 41,200 net barrels of crude oil and natural gas liquids per day, 11% lower than in 1974. Its natural gas revenues were up 33%.

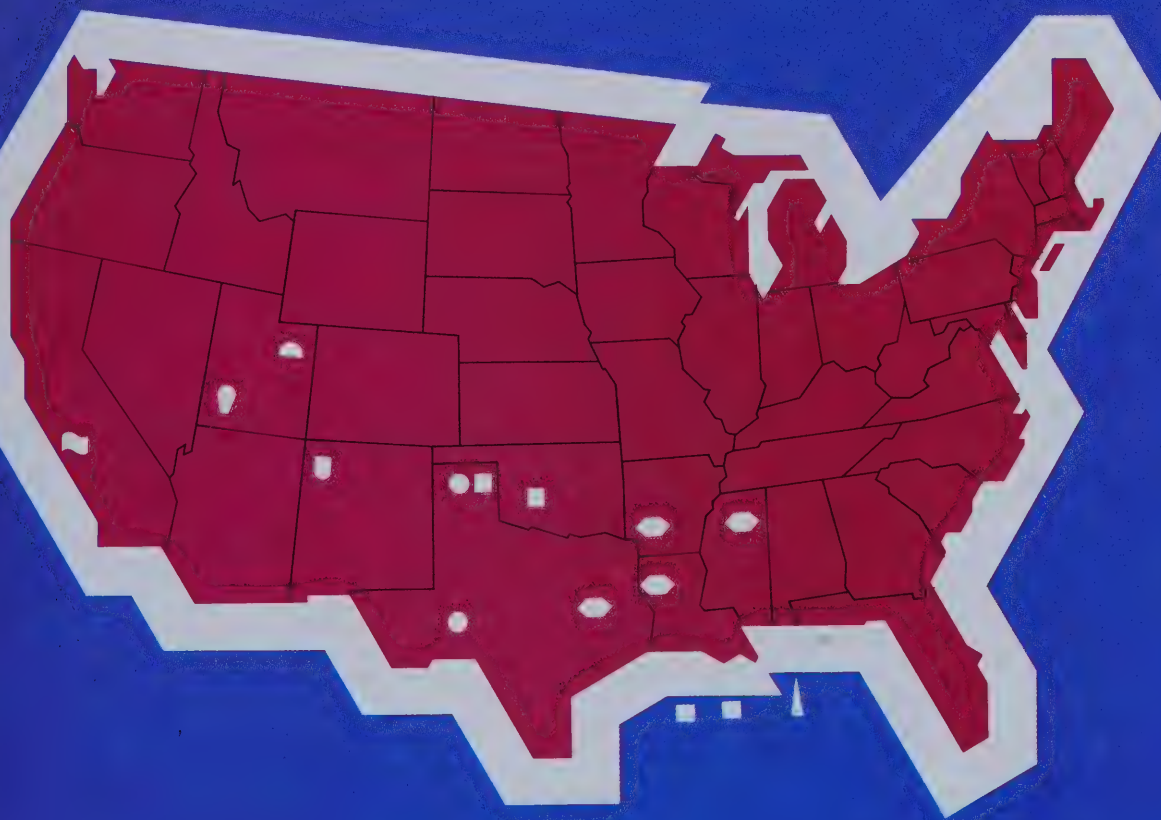
PHILLIPS U.S. ENERGY DEVELOPMENT

OIL AND GAS HIGHLIGHTS • 1975

-  OIL DISCOVERY
-  GAS DISCOVERY
-  FIELD DEVELOPMENT

OTHER ENERGY INTERESTS

-  LIGNITE COAL
-  URANIUM
-  GEOTHERMAL
-  OIL SHALE
-  TAR SANDS



Figures in the tables and charts accompanying this text do not include the Canadian company's results.

■ **Natural Gas Sales** — There were modest price increases in some sales of natural gas subject to Federal Power Commission regulation in interstate markets. Only intrastate markets, however, accurately reflect competitive market prices for gas. The portion of our natural gas sales made in intrastate markets has increased substantially in recent years. Our average price of gas sold in U.S. markets was 36 cents per thousand cubic feet, 9 cents higher than in 1974.

Because of unreasonable requirements set by the Commission, Phillips was forced to terminate an agreement to sell a substantial volume of liquefied natural gas, to be produced by our 70% owned plant in Kenai, Alaska, to a Pacific Northwest utility.

■ **New Energy Sources** — Important developments in coal, uranium and geothermal resources highlighted the fourth year of our drive to find and utilize alternate energy sources.

Acquisitions of options and leases on coal-bearing lands increased our holdings to more than 500,000 acres, with estimated potential re-

serves of more than two billion tons. A wholly owned subsidiary, Phillips Coal Company, formed during the year, initiated economic feasibility and mine-planning studies in anticipation of being in coal production in the early 1980s. Most of the Company's coal reserves are located in the Wilcox Lignite Trend in eastern Texas, southern Arkansas, Mississippi and Louisiana, but we also have coal options and leases in the Rocky Mountain states and Alaska. Competition has been intense in the acquisition of mining rights to the lignite trend coal, which has the competitive advantage of being near major Gulf Coast area utility and industrial markets.

Approximately 600,000 acres in 14 areas in Colorado, New Mexico, Utah and Wyoming have been acquired over the past three years for uranium exploration. Drilling in 1975 resulted in the discovery of a significant uranium deposit, designated Nose Rock, in the San Juan Basin in McKinley County, New Mexico. While the magnitude of the reserves had not been determined by year-end, drilling had indicated uranium oxide reserves on the order of 25,000,000 pounds or more. At year-end, Phillips had 11 rigs active in the area to drill out additional reserves on the Company's full-interest properties. Development feasibility studies were initiated.

Our geothermal resources program was concentrated on the Roosevelt Prospect near Milford in southwestern Utah. By year-end, Phillips had drilled a third test well on the prospect to confirm the presence of a potentially commercial zone of steam and hot water which was discovered by the Company's second well on the tract earlier in the year. The prospective market for this energy is for use to generate electric power.

■ **Coal Gasification Project Management** — We began managing the BI-GAS Coal Gasification Pilot Plant Demonstration Program, jointly sponsored by the Energy Research and Development Administration and the American Gas Association. Construction of the \$32,000,000 pilot plant located in Homer City, Pennsylvania, was completed in December 1975 and startup and shakedown operations were initiated at that time. The purpose of the program is to develop a practical technique through which the nation's abundant coal reserves can be used to supplement its dwindling supply of natural gas.

Core drilling was a crucial tool in our program to locate and evaluate U.S. lignite coal reserves.





One result of our domestic exploratory drilling program was discovery of a new gas field at this drilling site in the Texas Panhandle.

The petroleum processing, supply and marketing segment of our business — representing about one-third of Phillips total assets — was unprofitable during 1975. The effects of federal regulations, competitive conditions and higher feedstock costs offset gains from higher product prices and more efficient operations.

petroleum products

■ **Crude Oil Supply and Costs** — Federal government regulations forced us to sell an average of 28,800 barrels daily of our own crude oil supply to our competitors. This, coupled with a continuing decline in domestic production, made it necessary to import a daily average of 134,700 barrels of oil, or 37% of our total refinery runs in 1975 compared with 29% in 1974.

As part of our importing effort, we began shipments of Phillips Norwegian North Sea oil to the Company's U.S. refineries. During the last half of 1975, these refineries processed an average of 16,900 barrels daily of our North Sea oil. Production from Company-interest fields in Nigeria, Venezuela and Iran also helped meet the raw material needs of our domestic refineries.

Prices paid by the industry for foreign crude delivered to U.S. refineries, including import fees of \$2.00 per barrel for most of the year, ranged from \$12.52 to \$14.92 per barrel. U.S. crude not subject to federal price control varied in price from \$11.35 to \$13.35 per barrel, while the approximately 60% of domestic production under controls sold at \$5.25 per barrel. Price controls were extended to all domestic production in early 1976 and, with import fees lifted, a short-term reduction in crude oil costs is anticipated.

■ **Progress on Importing Facilities** — Construction of Seaway Pipeline, a new 30-inch diameter

crude oil line from Freeport, Texas, to Cushing, Oklahoma, was about one-third complete at year-end. Phillips owns 42% of Seaway. When operating in 1976, the line is expected to deliver initially 240,000 barrels of crude oil daily into the mid-continent region of the United States. It will make additional foreign crude available to our Kansas City, Kansas, and Borger, Texas, refineries.

Plans are to link Seaway Pipeline with Seadock, a deepwater terminal planned off the coast of Texas near Freeport. This facility, which Phillips and eight other companies are developing, is designed for unloading very large crude oil carriers bringing foreign crude oil to the United States. Applications for federal construction permits were submitted in December 1975 and, assuming the permits are granted, the terminal could be completed by 1980. It took four years for the federal government to develop the necessary legislation and permit system required for offshore facilities of this type.

Construction of the trans-Alaska pipeline to deliver crude oil from the North Slope of Alaska, where Phillips has interests in large oil and gas reserves, to the port of Valdez was 45% complete at year-end. It is scheduled to begin moving oil by the end of 1977. Phillips has a 1.66% interest in this project, now estimated to cost about \$7 billion.

■ **Refinery Runs** — U.S. refinery runs were somewhat lower than in 1974 because two serious fires at a key processing unit of the Avon Refinery in California limited runs there to 68% of capacity.

U.S. REFINERY RUNS

Crude oil and natural gas liquids	Barrels Daily	
	1975	1974
Kansas City, Kansas	82,000	79,000
Borger, Texas	171,000	175,000
Sweeny, Texas	145,000	148,000
Woods Cross, Utah	23,000	21,000
Great Falls, Montana	6,000	6,000
Avon, California	74,000	94,000
Total	501,000	523,000

■ **Refining Affiliates** — The Company has stock interests of 50% or less in several companies operating refineries outside the United States. For 1975, our interests in their refinery runs, in proportion to our stock interests, totaled 52,000 barrels a day.

In addition to these refinery runs, average daily naphtha runs were 43,800 barrels by the Company's chemical complex in Puerto Rico and 31,100 barrels by 50% owned Petrochim's plant in Belgium.

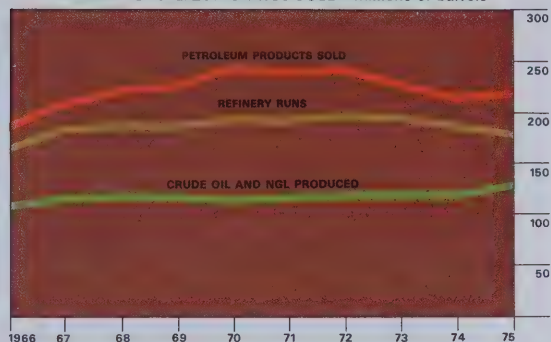
■ **Environmental Projects** — Expenditures for environmental projects accounted for more than half of the total capital expenditures within the domestic refining segment of our business.

New facilities were installed to expand our production of emulsion type asphalts, which do not contain the hydrocarbon solvents normally used to prepare asphalt for highway construction. The new material not only reduces atmospheric pollution caused by solvent evaporation, but also releases the solvents for energy uses.

■ **Marketing** — The volume of petroleum products sold increased 2% above sales in 1974. Although average prices for refined products were substantially higher, increased costs, federal regulations and competitive conditions hampered efforts to achieve an adequate return for our operations.

For the third consecutive year, we operated under complex and confusing federal price and allocation regulations. They are expensive to administer and counterproductive to efficient development of energy sources and the manufacture and distribution of products.

PETROLEUM PRODUCTS SOLD, REFINERY RUNS, CRUDE OIL AND NATURAL GAS LIQUIDS PRODUCED—millions of barrels



PETROLEUM PRODUCTS SOLD	Barrels Daily	
	1975	1974
UNITED STATES		
Automotive gasoline	304,000	286,000
Aviation fuels	24,000	30,000
Distillates	99,000	100,000
Liquefied petroleum gas	97,000	92,000
Other products	31,000	33,000
Total U.S.	555,000	541,000
OUTSIDE U.S.	56,000	60,000
WORLDWIDE	611,000	601,000



Energy conservation at our Borger, Texas, refinery was one of the benefits resulting from a new computer control system designed, manufactured and installed by the Company's wholly owned subsidiary, Applied Automation, Inc.

Our worldwide chemicals operations attained their second best year in sales and earnings. They could not top the unprecedented performance of 1974 principally because of the effects of the global economic recession. Nevertheless, an upswing in the performance of most of our U.S. product lines was evident toward year-end.

chemicals

Chemical sales totaled \$981,800,000 in 1975 compared with \$1,184,200,000 in 1974. The figures do not reflect sales of one domestic and 18 foreign-based companies in which Phillips owns interests of 50% or less. Chemical earnings, including our share of the income from these interests and other sources, accounted for 24% of total Company earnings in 1975, compared with 39% in 1974.

Although our chemical business felt the impact of the worldwide economic slowdown, its diversification provided some stability by tending to level out the rises and falls in revenues experienced by companies with less breadth and fewer product lines.

Prices for petrochemicals generally held up well in the face of lower demand for many end products. This development denotes a reversal from an era when petrochemicals were underpriced in relation to their usefulness and the value of the raw materials from which they are made. Because most petrochemical raw materials are usable as either fuels or chemical feedstocks, the rise in fuel prices strengthened petrochemical values.

Our own hydrocarbon production meets the bulk of the feedstock needs of our chemical facilities, assuring security of supply.

■ **Feedstocks and Special Chemicals** — Revenue from sales of basic petrochemical feedstocks

(principally ethylene), aromatics and other intermediates, and special chemicals decreased 22% from 1974. Special chemicals include high-purity hydrocarbons, petrosulfur compounds, solvents and drilling mud additives. Domestic demand strengthened at mid-year, and all our U.S. facilities operated at capacity during the second half. New hydrocarbon propellant manufacturing facilities in East Chicago, Illinois, were completed.

With a strong and growing demand for ethylene evident, we authorized construction of a one-billion-pound annual capacity addition to our ethylene facility at Sweeny, Texas. To help meet the new plant's feedstock requirements, we initiated a program to increase ethane extraction at our natural gas liquids plants. New units were completed and placed into operation at facilities in southeast New Mexico and West Texas, and more are scheduled for installation through 1978. A major expansion of facilities to recover additional ethane and propane also was begun at the Borger, Texas, refinery.

■ **Phillips Puerto Rico Core Inc.** — Our subsidiary operation near Guayama, Puerto Rico, ran at an average of 88% of capacity during the year. The complex manufactures basic chemicals and motor fuel from naphtha, a crude oil derivative.

■ **Fertilizers** — Demand for fertilizers was lower because fields in prime U.S. farming areas generally were too wet for optimum spring applications. In addition, farmers reduced costs by using less fertilizer. Notwithstanding the reduced yield per acre stemming from lighter fertilizer applications, farmers produced record or near-record crops by putting more land into cultivation.

■ **Rubber Chemicals** — Demand for carbon black, butadiene and synthetic rubber product lines remained slack throughout the year. Several factors contributed to this situation. The recession caused consumers to delay purchasing of replacement tires as well as new automobiles. Faced with reduced demand for their products, our rubber industry customers sold down their inventories without restocking. An upsurge in automobile sales did improve our domestic rubber business slightly in the fourth quarter of 1975. Foreign demand also strengthened in the latter part of the year. The upsurge in domestic automobile buying involved primarily small cars, which are equipped with smaller tires having less rubber and carbon black. Moreover, product improvements in recent years have made synthetic rubber tires longer-wearing. Combined with the trend to



In a hospital emergency room, blood flows through economical, disposable filter unit incorporating a clear casing of Phillips K-Resin butadiene-styrene polymers.

reduced automobile travel, these factors indicate that, at best, the tire market will experience a slow return to earlier sales levels.

■ **Plastics** — Domestic demand for our polyolefin, polyphenylene sulfide and butadiene-styrene resins recovered strongly around mid-year. Demand outside the U.S. improved during the fourth quarter.

Capacity at our Pasadena, Texas, facility which manufactures Marlex polyethylene was increased by 88,000,000 pounds annually. This 19% increase was the result of a program to improve processing procedures, eliminate bottlenecks and make optimum use of computers and automatic controls in the operation.

■ **Fibers** — Our 80% owned subsidiary, Phillips Fibers Corporation, began to rebuild sales in the second quarter. This company manufactures and markets Quintess polyester yarns and also markets the Marvess olefin fibers and nonwoven fabrics produced by other facilities wholly owned by Phillips.

In the fourth quarter, Phillips Fibers completed an expansion at the polyester textile yarn plant in Rocky Mount, North Carolina, which increased annual production capacity by 20,000,000 pounds. Capacity sales of Marvess olefin carpet yarn used in woven oriental design area rugs were maintained. Changing styles in needlepunch carpets aided a recovery for Marvess olefin staple fibers.

Our strong sales program to develop diversified markets for nonwoven fabrics resulted in successful entry into several new fields, including backings for vinyl materials and construction fabrics for furniture. Sales in these markets helped offset the lower demand for carpet backing induced by the housing slump.

Late in the year, Fibers International Corporation, 94% owned by Phillips, agreed to sell its nylon and polyester yarn plant in Guayama, Puerto Rico, which was closed in early 1975. Polyester yarn manufacturing was consolidated at Phillips Fibers Corporation's Rocky Mount, North Carolina, plant.

■ **Fabricated Products** — This area of our chemicals business in itself is broadly diversified. Its several product lines experienced various results in 1975, but sales grew for most.

Our plastic pipe, conduit and duct business increased, although at a slower rate than in 1974. Introduction of Driscopipe 1000, an economical line of pipe and fittings tailored for the sewer relining market, broadened our markets considerably. In the next several years, every municipal sewer system in the nation must be brought up to Environmental Protection Agency standards and in many cases relining of deteriorated lines will be the most economical way of meeting these standards. In Canada's Alberta Province, installation was begun on a new plastic pipe plant to supply the rapidly growing rural gasification market.

Garden Scene plastic floralware, our broad line of indoor and outdoor plant containers, continued its strong growth. A substantial portion of the product line is manufactured in our plastic molding facilities from Phillips resins.

We discontinued operations at the plastic bottle molding plant in Orangeburg, New York, and sold the vinyl film operation in Auburn, Pennsylvania.

Sealright Co., Inc., makers of plastic-coated containers and machinery for the dairy and other industries, felt little effect of the recession, as sales reached an all-time high.

H. P. Smith Paper Co., maker of film and paper coatings, successfully introduced a new Poly-slik film. The non-tear release material has particular advantages for applications in fine

PRINCIPAL CHEMICAL PLANT EXPANSIONS

PRODUCT	LOCATION	PHILLIPS INTEREST	ADDITIONAL GROSS ANNUAL CAPACITY
COMPLETED DURING 1975			
High-density polyethylene*	Houston, Texas	100%	88,000,000 pounds
High-density polyethylene	Antwerp, Belgium	30%	88,200,000 pounds
Polyester textile yarn	Rocky Mt., North Carolina	80%	20,000,000 pounds
Carbon black	Borger, Texas	100%	27,000,000 pounds
Carbon black	Orange, Texas	100%	20,000,000 pounds
Carbon black	Toledo, Ohio	100%	10,000,000 pounds
Carbon black	Kurnell, Australia	100%	6,600,000 pounds
Carbon black	Salamanca, Mexico	39%	13,200,000 pounds
Ethylene	Antwerp, Belgium	50%	37,500,000 pounds
Synthetic rubber	Borger, Texas	21%	10,000 long tons

UNDER CONSTRUCTION OR AUTHORIZED AT YEAR-END

Butadiene	Tarragona, Spain	45%	110,200,000 pounds
Carbon black	Candeias, Brazil	35%	72,700,000 pounds
Carbon black	Durgapur, India	30%	17,500,000 pounds
Ethylene	Sweeny, Texas	100%	1,000,000,000 pounds
Normal mercaptan	Borger, Texas	100%	9,700,000 pounds
Tertiary mercaptan	Borger, Texas	100%	1,500,000 pounds
Plastic pipe†	Calgary, Alberta	100%	2,000,000 pounds
Paraxylene†	Guayama, Puerto Rico	100%	470,000,000 pounds
Cyclohexane	Guayama, Puerto Rico	100%	18,400,000 gallons
Propylene	Sweeny, Texas	100%	95,500,000 pounds
High-density polyethylene	Puertollano, Spain	45%	77,200,000 pounds
Nonwoven fabric	Seneca, South Carolina	100%	13,700,000 square yards
Synthetic rubber	Borger, Texas	100%	25,500 long tons
Synthetic rubber	Salamanca, Mexico	39%	26,600 long tons
Synthetic rubber	Antwerp, Belgium	50%	9,800 long tons
Synthetic rubber	Santander, Spain	45%	29,500 long tons

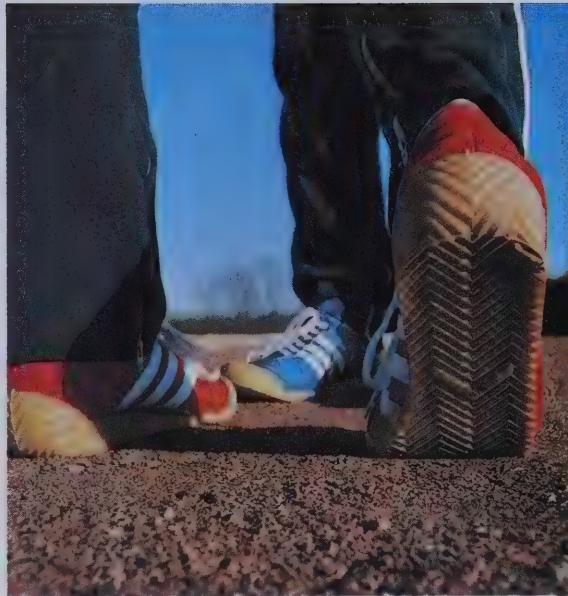
*Plant can also produce low-density polyethylene.

†New plant.

papers, medical products, diaper pads and other products in growing markets.

Wall Tube & Metal Products Co. put a new tube mill into operation and greatly expanded its sales of tubing for heat exchanger and condenser applications. However, sales of automotive and metal furniture product lines were adversely affected by the recession.

We adopted the name "Phillips Chemical Company, a division of Phillips Petroleum Company," for the domestic chemical operations of the parent company. The new identification will enable customers to recognize Phillips Chemical Company as having the strengths of a separate business while retaining the advantages of being part of a major petroleum company. A recent survey shows that Phillips chemical activities ranked as the twelfth largest in the U.S. chemical industry.



Popular sports shoe soles, molded from Phillips Solprene plastomers, provide the skid-resistant safety of live rubber and require less energy in the manufacturing process.



Classic is the look of the new products added to the Garden Scene plastic floralware line.

Rising prices and tightening supplies of many of the Company's raw materials placed added emphasis on the activities of Phillips researchers. Of special interest were achievements in better crude oil recovery systems, advanced evaluation techniques to aid in exploration efforts and more economical processes for removing toxic materials from fuels.

research

Development of new tools for petroleum exploration remained a primary thrust of Phillips research. One such technique, using a concept called magneto-tellurics, permits measurement of the electrical resistivity of rock layers below the earth's surface. When combined with geophysical and geological information, the data can help determine the type, porosity and fluid content of the subsurface rocks.

Faster, more accurate processing of exploratory well information was made possible by installation of advanced, Company-developed computer systems at six exploration offices around the world.

New gelled polymers and foams were developed to improve oil recovery by correcting steam or water flow problems in reservoirs. Indicative of Phillips strong position in enhanced recovery technology, several licenses have been granted to other companies for use of our secondary and tertiary recovery techniques.

■ **Fuels and Lubricants Research** — A superior additive treatment went into general use in Phillips 66 gasolines for improved carburetor cleanliness and better control of emissions. Engine protection provided by Trop-Artic All Season SAE 10W-40 motor oil was increased by improving oil flow at sub-zero temperatures.

■ **Products and Processes Research** — A more economical process for selectively removing toxic hydrogen sulfide from gas streams also containing carbon dioxide was developed and put into use in our Borger refinery. The process is expected to be useful in certain natural gas fields that have not been developed because of the high cost of removing hydrogen sulfide by conventional techniques. It may also reduce the cost of gas manufactured from coal.

A process was found for producing high-quality petroleum detergents that, when injected underground, increase the yield from oil fields experiencing production declines.

A pilot plant began producing a single cell protein made by growing yeast or bacteria on alcohol substrates such as methanol, a basic petroleum product. As a step toward using these products both in human and animal diets, we continued a feed supplement testing program in cooperation with Iowa State University. University nutritionists found these proteins to be equal to, and at times superior to, other feed protein supplements such as soybean meal.

Development moved ahead on a flame-retardant for use in plastics. Fire resistant plastics would be of particular importance in applications such as household appliances, public building interiors and hospital and other institutional items.

■ **New Research Techniques** — Numerous new instrumental techniques were developed or installed to aid research on chemical and physical processes important in rapidly evolving energy exploration, production and utilization technology. A new automated wet chemical analyzer, which increased the speed of analyses from two to as many as 60 samples per hour, found application in waterflood additive research. A new procedure utilizing advanced instruments was developed to provide, in a matter of seconds, important information in answering questions such as how petroleum moves from source rocks to reservoirs.

■ **Patents and Licensing** — For the eighth time in as many years, Phillips ranked first among oil companies in the number of U.S. patents issued with a total of 317 — more than one each working day. At year-end, Phillips owned 6,584 active U.S. patents, the largest number in the industry for the second consecutive year. The Company was also issued 232 patents in 31 other countries. Patent and technology licensing is a long-standing contributor to the Company's income.



Research scientist J. R. Norell demonstrates that petroleum-based plastics can be made flame resistant. His laboratory torch only chars the plastic containing a Phillips-developed flame retardant while the ordinary plastic on the right continues to flame.

The continued progress of any organization depends on the vitality of its people. While this annual report can only highlight the efforts of Phillips people, it is to their competence and energy, their sense of common purpose and continuing dedication that the Company owes its 1975 achievements.



Recognizing our need for highly motivated men and women with a broad diversity of talents and qualifications, we moved ahead in programs to foster personal development through improved job progression and continuing education and to promote more job opportunities for minorities and women.

In our overseas operations, we continued to stress employment of citizens of the host nation whenever possible. Training programs were increased to better utilize nationals. Of the 2,900 employees on our overseas payroll, 77% were citizens of host countries.

Reflecting the capital-intensive nature of the petroleum industry, the Company's average investment per employee at the end of 1975 amounted to \$149,000, which was more than four times the average investment per employee for all large industrial corporations. Our 1975 capital spending averaged \$23,900 per job.

Relations with labor remained stable with no significant work stoppages in Company operations.

■ **Employee Communications and Training** — Expansion of internal television tape facilities during the year provided greater capability and

flexibility in communicating both informational and training material. This video system allowed information to be conveyed in condensed form, a more personal manner and at greater speed and less cost in many cases. The system reached 35 strategic locations, including five in foreign countries. Eighty percent of our U.S.-based employees had access to video programming during the year. Further expansion of the video system is scheduled in 1976.

■ **Safety and Health** — The Company's dedication to employee safety was reflected in new or upgraded programs which stressed occupational health and industrial hygiene. In addition, efforts were continued to comply with government safety regulations, although some of these are overly complex and costly.

Improved physical examination procedures were established to better protect employees through early detection of health problems, exposure susceptibility and other conditions. The number of employees electing to take periodic examinations increased significantly as a result of efforts to make the program more convenient and suitable to employee needs.

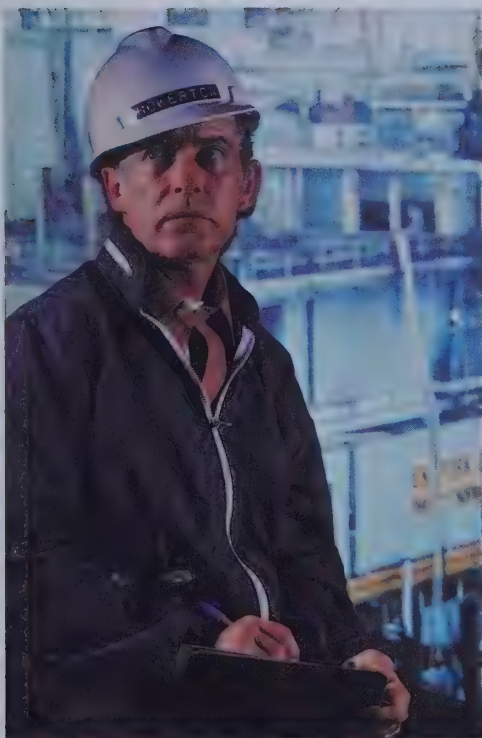
Lost-time injuries totaled 5.2 per million man-hours worked, and the vehicle accident frequency rate was 3.3 per million miles driven. Though both 1975 rates were higher than in the previous year, they ranked well below the averages for the petroleum industry.

A concentrated evaluation and upgrading of safety equipment and procedures was undertaken at two Company operations where major fires had occurred during the year.

■ **Cost-Saving Suggestions** — It was a banner year for the Company Suggestion Plan, which again proved a valuable source for developing methods of cutting costs and saving time and materials. Employees developed more than 14,000 ideas and some 4,600 suggestions were adopted, including one that drew the largest cash award ever presented in the Plan's 43-year history.

■ **Management Changes** — No changes in the Company's elected officers occurred in 1975.

J. W. Davison was named manager of Research and Development during the year. P. M. Arnold, vice president of Research and Development, reached normal retirement age on February 1, 1976, and Mr. Davison was elected to the position on February 9, 1976.



Pipeline inspector J. M. Howerton, assigned to North Sea operations, won the largest award, \$35,500, in the 43-year history of the Company's suggestion program. His better idea produced substantial savings in manhours and materials in laying the Ekofisk pipelines.



Demonstrating that even the smallest businessman in the United States earns more than 50% of the world's people, this newspaper carrier played the key role in a Phillips free enterprise television advertising program.

Chairman W. F. Martin participates in a "Professor for a day" program at a state university, part of the Company's growing effort to build understanding between the business and academic communities.

Programs to enhance public understanding of our business and demonstrate our commitment to social goals aided improvement of corporate-public relationships. Our broad base of accountability is reflected in the fact there are 126,900 Phillips stockholders, and thousands of independent businesses which distribute and market Company products to millions of customers.

corporate citizenship

■ **Public Communication** — Complex energy issues — particularly questions about the price and supply of fuels — dictated a continuing strong commitment to communicating information about such issues to consumers and other sectors of the public.

Phillips people used public appearances, media interviews and publications to stress the need for establishment of a national energy policy as a vital step toward strengthening the country's energy self-sufficiency.

Besides responding to requests for information, we actively sought and developed opportunities to talk face-to-face with all segments of the consuming public. During the year, nearly 2,000 organizations sought presentations by Company employees.

As part of an ongoing effort to improve communications between the educational community and business, numerous presentations were made to high school and college students.

Publications on varying aspects of the business were prepared for distribution to special groups and to the general public. One of these was *The World of Phillips*, a comprehensive look at the worldwide energy, chemical and related activities of the Company.

Copies can be obtained by writing to Mr. Harvey W. Thompson, Secretary, Phillips Petroleum Company, Bartlesville, Oklahoma 74004.

■ **Community and Youth Assistance** — Grants and scholarships were made through the Phillips Petroleum Foundation to educational, health, cultural, youth, community and public interest organizations. These contributions were up 10% from 1974.

Our sponsorship of the Amateur Athletic Union senior swimming program helped support national and international swimming competition. This financial commitment continues through the 1980 Olympic year.

Phillips people again were recognized for strong involvement in the activities of their communities. Distinguished Community Service Awards were presented to 156 employees for outstanding participation.

■ **Environmental Protection** — Working to protect the air, water and land, and to develop fair and effective standards within economic realities remained basic to our operations and plans. We cooperated closely with government agencies worldwide to find the most equitable and practical solutions to environmental problems.

Expenditures for environmental protection during 1975 totaled \$89,600,000, an increase of 87% over 1974. Capital expenditures comprised \$66,000,000 of 1975 spending. Major efforts were directed at meeting the 1977 goals of federal water pollution control laws.

■ **Energy Conservation** — Strides in conservation moved the Company closer to its goal of reducing energy consumption by 15% per barrel of oil processed and per pound of chemical produced by 1980 compared with 1972. Company energy usage in 1975 was further reduced by the equivalent of more than 1,500,000 barrels of oil. This progress was the result of improving the efficiencies of equipment, shutting down unneeded facilities, reducing lighting, heating and cooling requirements, and recovering and using waste heat from stack gases.

In several cases, efficient fuel usage was the result of committing capital funds for new equipment. For example, three steam boilers were installed at our Borger, Texas, carbon black and synthetic rubber manufacturing plants at a total cost of \$20,000,000. The boilers will meet the total steam requirements of the two plants as well as the partial needs of a third Phillips facility. Fuel for the boilers is exhaust vapor previously discharged into the air. Rising costs of conventional fuels made this undertaking economical. The facility is expected to pay for itself in less than four years.

PHILLIPS PETROLEUM COMPANY
CONSOLIDATED BALANCE SHEETS AT DECEMBER 31

ASSETS	1975	1974
Current Assets:		
Cash, including time deposits	\$ 477,367,000	\$ 336,597,000
Short-term investments	45,255,000	56,887,000
Notes and accounts receivable — (less reserves: 1975 — \$10,089,000; 1974 — \$11,360,000)	629,036,000	611,341,000
Inventories:		
Crude oil, petroleum products, chemicals and merchandise	340,070,000	368,959,000
Materials and supplies	129,530,000	91,915,000
Total Current Assets	1,621,258,000	1,465,699,000
Investments and Long-Term Receivables — (less reserves: 1975 — \$13,869,000; 1974 — \$13,043,000) — Notes 2 and 13	404,401,000	360,473,000
Properties, Plants and Equipment , at cost, less reserves — Note 3	2,439,127,000	2,154,093,000
Prepaid and Deferred Charges	80,143,000	47,847,000
	<u>\$4,544,929,000</u>	<u>\$4,028,112,000</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Notes and accounts payable	\$ 526,317,000	\$ 542,897,000
Long-term debt due within one year — Note 4	47,981,000	39,037,000
Accrued taxes	261,891,000	264,851,000
Other accruals	47,359,000	42,200,000
Total Current Liabilities	883,548,000	888,985,000
Long-Term Debt — Note 4	892,672,000	658,237,000
Deferred Credits:		
Income taxes — Note 5	201,606,000	72,871,000
Other	64,369,000	66,367,000
Total Deferred Credits	265,975,000	139,238,000
Reserve for Contingencies	66,387,000	59,977,000
Minority Interest in Consolidated Subsidiaries	12,048,000	7,979,000
Stockholders' Equity:		
Common stock, \$2.50 par value:		
Shares authorized — 100,000,000		
Shares issued — 76,261,836	190,655,000	190,655,000
Capital in excess of par value of common stock — Note 6	455,136,000	451,325,000
Earnings employed in the business	1,779,002,000	1,636,057,000
	<u>2,424,793,000</u>	<u>2,278,037,000</u>
Less treasury stock, at cost — (1975 — 18,177 shares; 1974 — 159,629 shares) — Note 6	494,000	4,341,000
Total Stockholders' Equity	<u>2,424,299,000</u>	<u>2,273,696,000</u>
	<u>\$4,544,929,000</u>	<u>\$4,028,112,000</u>

PHILLIPS PETROLEUM COMPANY

CONSOLIDATED STATEMENTS OF INCOME AND EARNINGS EMPLOYED IN THE BUSINESS

	1975	1974
Revenues:		
Gross operating revenues	\$5,133,557,000	\$4,980,704,000
Equity in earnings of nonsubsidiary companies	28,791,000	59,742,000
Other revenues	50,540,000	65,274,000
	<u>5,212,888,000</u>	<u>5,105,720,000</u>
Costs and Expenses:		
Costs and operating expenses	3,668,819,000	3,583,427,000
Selling, general and administrative expenses	322,462,000	311,552,000
Depreciation, depletion, amortization and retirements	326,032,000	273,544,000
Taxes other than income taxes* — Note 5	93,798,000	84,809,000
Interest and expense on indebtedness	49,761,000	52,831,000
Unusual items — net — Note 11	—	13,772,000
Provision for income taxes — Note 5	409,448,000	356,008,000
	<u>4,870,320,000</u>	<u>4,675,943,000</u>
Income Before Cumulative Effect of Accounting Change	342,568,000	429,777,000
Cumulative Effect on Prior Years		
of Accounting Change — Note 13	—	(27,639,000)
Net Income	342,568,000	402,138,000
Earnings Employed in the Business at Beginning of Year:		
As previously reported	1,636,057,000	1,343,927,000
Adjustment — Note 5	(77,789,000)	—
As restated	<u>1,558,268,000</u>	<u>1,343,927,000</u>
	1,900,836,000	1,746,065,000
Dividends Paid (1975 — \$1.60 a share; 1974 — \$1.45 a share)	121,834,000	110,008,000
Earnings Employed in the Business at End of Year	\$1,779,002,000	\$1,636,057,000
Per Share of Common Stock:		
Income before cumulative effect of accounting change	\$ 4.50	\$ 5.66
Cumulative effect on prior years of accounting change	—	(.36)
Net income	<u>\$ 4.50</u>	<u>\$ 5.30</u>

*In addition, taxes of \$267,000,000 in 1975 and \$259,000,000 in 1974 were collected on the sale of petroleum products and paid to taxing agencies.

PHILLIPS PETROLEUM COMPANY
CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	1975	1974
Funds Provided from Operations Consisted of —		
Income before cumulative effect of accounting change	\$ 342,568,000	\$ 429,777,000
Non-cash items included in earnings, as follows —		
Depreciation, depletion, amortization and retirements	326,032,000	273,544,000
Other (including asset write-down in 1974 — Note 11) — net	55,335,000	55,100,000
	<u>723,935,000</u>	<u>758,421,000</u>
While Funds Were Expended for —		
Properties, plants and equipment	693,879,000	617,996,000
Investments	35,361,000	9,547,000
Dividends to Company stockholders	121,834,000	110,008,000
Repayment of long-term borrowings	76,141,000	225,077,000
Other	45,418,000	47,339,000
	<u>972,633,000</u>	<u>1,009,967,000</u>
Which Left a Deficiency of	<u>\$ 248,698,000</u>	<u>\$ 251,546,000</u>
This Deficiency Was Financed by —		
Long-term borrowings	\$ 310,576,000	\$ 76,857,000
Property sales and retirements	86,267,000	91,238,000
Sales of investments	3,723,000	20,492,000
Proceeds from sale of Company stock	7,658,000	17,981,000
Other	1,470,000	9,733,000
Withdrawals from (additions to) working capital	(160,996,000)	35,245,000
	<u>\$ 248,698,000</u>	<u>\$ 251,546,000</u>
Changes in Components of Working Capital:		
Cash and short-term investments	\$ 129,138,000	\$ (47,648,000)
Notes and accounts receivable	17,695,000	108,646,000
Inventories	8,726,000	171,991,000
Total Current Assets	<u>155,559,000</u>	<u>232,989,000</u>
Notes and accounts payable	(16,580,000)	142,243,000
Long-term debt due within one year	8,944,000	(21,581,000)
Accrued taxes and other accruals	2,199,000	147,572,000
Total Current Liabilities	<u>(5,437,000)</u>	<u>268,234,000</u>
Withdrawals from (additions to) working capital	<u>\$ (160,996,000)</u>	<u>\$ 35,245,000</u>

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Stockholders
Phillips Petroleum Company

We have examined the accompanying consolidated balance sheets of Phillips Petroleum Company at December 31, 1975 and 1974 and the related consolidated statements of income and earnings employed in the business and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Phillips Petroleum Company at December 31, 1975 and 1974 and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the period subsequent to the change, made as of January 1, 1974, in accounting for deferred taxes by an equity company, described in Note 13, and after retroactive application of inter-period tax allocation, described in Note 5, with which changes we concur.

Tulsa, Oklahoma
February 17, 1976

ARTHUR YOUNG & COMPANY

NOTE 1 — ACCOUNTING POLICIES

Consolidation Principles and Investments — The consolidated statements include the accounts of companies owned more than 50%. Investments in companies owned 20% to 50%, inclusive, and in corporate joint ventures are accounted for using the equity method. Investments in other companies are carried at cost except that equity securities for which quoted prices are available are carried at the lower of aggregate cost or market, computed separately for current and noncurrent securities. Such securities were carried at cost in 1974. This change in accounting did not materially affect 1975 earnings.

Foreign Currency Translation — Current assets and liabilities recorded in foreign currencies are translated into dollars at exchange rates in effect at year-end. All other foreign assets and liabilities, in general, are translated at exchange rates in effect when acquired or incurred. Revenues, costs and expenses are translated at approximate rates in effect during the period of the transactions, except for depreciation, depletion, amortization and retirements, which are translated on the same basis as the related assets. Net unrealized translation losses are charged against income; net unrealized translation gains are credited to a reserve for exchange losses. The same accounting applies for recording unrealized gains and losses on forward exchange contracts. Exchange adjustments arising from these procedures and the Company's exposure from future translation adjustments at December 31, 1975, based on current exchange rates, are not material.

Inventories — Crude oil, petroleum products and chemicals are priced at cost, which is lower than market in the aggregate, mainly on the last-in, first-out basis. Materials and supplies are priced at average cost or replacement cost, with allowance for condition of used material.

Depreciation and Depletion — Depreciation of properties, plants and equipment is determined by the group straight-line method, individual unit straight-line method and the unit of production method, applying the method considered most appropriate for each type of property. Leasehold costs of producing properties and the intangible development costs of productive wells are amortized on the unit of production method based on estimated recoverable oil and gas reserves.

Exploratory Costs — Undeveloped oil and gas leaseholds are capitalized and that portion of the costs applicable to properties which it is estimated will be surrendered is amortized over the estimated holding period. Dry holes and undeveloped lease rentals are expensed. Geological and geophysical costs resulting in the ac-

quisition or retention of leases are capitalized with the remainder being expensed.

Property Dispositions — When complete units of depreciable property are retired or are sold for continued use, reserves are reduced by the applicable amounts and any profit or loss is credited or charged to income. When less than complete units of depreciable property are retired or disposed of, the difference between asset cost and salvage value is charged or credited to the reserve for depreciation.

Maintenance and Repairs — Maintenance and repairs are charged against income. Major renewals and replacements are charged to property accounts, and the assets replaced are retired.

Income Taxes — Deferred taxes are provided for all significant timing differences in the recognition of revenue and expenses for tax and financial purposes. The application of this method to intangible development and certain other costs was adopted January 1, 1975, on a retroactive basis, as explained in Note 5.

The allowable investment tax credit is applied as a reduction of income taxes.

NOTE 2 — INVESTMENTS

Investments at December 31, 1975, include 10,326,321 shares of common stock of Pacific Petroleum Ltd. ("Pacific"), representing 48.39% of the total shares outstanding. These securities had a carrying value of \$177,580,000 and a quoted market value of \$265,903,000 at December 31, 1975, which does not purport to be realizable value. At the same date, net assets of Pacific in Canadian dollars amounted to \$354,312,000, which consists of current assets \$108,635,000, net property, plant and equipment \$451,322,000, investments \$79,983,000, current liabilities \$62,507,000, long-term debt \$124,519,000 and provision for future income tax \$98,602,000. Earnings of Pacific for 1975 in Canadian dollars were \$57,267,000.

NOTE 3 — PROPERTIES, PLANTS AND EQUIPMENT

The Company's investment in properties, plants and equipment is summarized as follows:

	December 31	
	1975	1974
Exploration and production	\$2,588,904,000	\$2,433,246,000
Manufacturing	1,339,493,000	1,264,332,000
Transportation	419,765,000	342,756,000
Marketing	249,715,000	264,009,000
Other	114,472,000	106,346,000
	<u>4,712,349,000</u>	<u>4,410,689,000</u>
Less reserves for depreciation, depletion and amortization	<u>2,273,222,000</u>	<u>2,256,596,000</u>
	<u>\$2,439,127,000</u>	<u>\$2,154,093,000</u>

NOTE 4 — LONG-TERM DEBT

Long-term debt due after one year at December 31, 1975, consists of the following:

8 $\frac{7}{8}$ % Debentures Due 2000	\$250,000,000
7 $\frac{5}{8}$ % Debentures Due 2001	199,222,000
6% Guaranteed Sinking Fund Debentures Due 1981	11,250,000
5 $\frac{1}{2}$ % Guaranteed Swiss Bonds due 1983	13,838,000
Notes payable to banks, insurance companies and others:	
At 7%-8 $\frac{1}{4}$ %, due 1977-1990	51,467,000
At 5 $\frac{1}{8}$ %-6 $\frac{1}{2}$ %, due 1977-1991	314,303,000
At 4%-5%, due 1977-1989	17,042,000
Purchase obligations	21,034,000
Other	14,516,000
	<u>\$892,672,000</u>

Maturities of long-term debt for the next five years are:
1976 — \$47,981,000 (included in current liabilities);
1977 — \$51,002,000; 1978 — \$51,362,000; 1979 — \$49,107,000; 1980 — \$36,558,000.

Arrangements existed at year-end for a subsidiary to borrow an additional \$44,516,000 to finance its portion of the further development of oil fields in the North Sea. Generally, repayments of such loans would commence in 1977 and continue through 1982.

NOTE 5 — TAXES

	1975	1974
Operating taxes		
Property	\$ 32,624,000	\$ 31,219,000
Gross production	28,687,000	24,232,000
Social security	20,848,000	18,844,000
Other	11,639,000	10,514,000
	<u>93,798,000</u>	<u>84,809,000</u>
Income taxes		
Federal		
Current	110,527,000	127,553,000
Deferred	18,314,000	8,503,000
Foreign		
Current	235,762,000	200,469,000
Deferred	32,632,000	5,378,000
State	12,213,000	14,105,000
	<u>409,448,000</u>	<u>356,008,000</u>
Total taxes charged to income before cumulative effect of accounting change	503,246,000	440,817,000
Excise taxes collected on the sale of petroleum products and paid to taxing agencies	<u>267,000,000</u>	<u>259,000,000</u>
	<u>\$770,246,000</u>	<u>\$699,817,000</u>

The amount of investment tax credit applied as a reduction of the provision for federal income taxes was \$20,562,000 in 1975 and \$9,421,000 in 1974.

The Company's effective income tax rate differs from the federal statutory income tax rate due to the following reasons:

	Percentage of Pretax Income	
	1975	1974
Federal statutory income tax rate	48.0%	48.0%
Excess of foreign tax over the allowed foreign tax credit	14.5	10.4
U.S. tax deduction for depletion and intangible drilling cost for 1974 and excess percentage depletion for 1975	(1.5)	(7.6)
Equity in undistributed earnings of certain companies for which tax has not been accrued because of plans to reinvest earnings and tax savings on dividends received	(2.7)	(2.4)
Investment tax credit	(2.7)	(1.2)
Other	(1.2)	(1.9)
Effective tax rate before cumulative effect of accounting change	<u>54.4%</u>	<u>45.3%</u>

Deferred taxes on timing differences which were recognized in 1975 and 1974, before cumulative effect of accounting change, were:

	1975	1974
Excess of tax over book depreciation	\$23,918,000	\$ 6,301,000
Financial write-down of assets of Fibers International Corporation	—	(27,975,000)
Excess of intangible drilling and certain other costs over book provisions	19,637,000	—
Undistributed earnings of certain subsidiary companies	(861,000)	25,477,000
Other	8,252,000	10,078,000
	<u>\$50,946,000</u>	<u>\$13,881,000</u>

At December 31, 1975, income taxes have not been accrued on \$123,174,000 of the Company's equity in undistributed earnings of certain subsidiaries and corporate joint ventures because of reinvestment plans for such funds or anticipated foreign tax credits.

The elimination by the Tax Reduction Act of 1975 of the percentage depletion allowance for oil and certain gas production of major oil companies caused the Company to commence inter-period tax allocation on intangible development and certain other costs. Accordingly, a charge in the amount of \$77,789,000 has been made against earnings employed in the business for deferred taxes applicable to such costs prior to January 1, 1975. This change had no material effect on earnings for 1975, nor would it have materially affected earnings for prior periods had such policy been in effect.

NOTE 6 — STOCKHOLDERS' EQUITY

During 1975 treasury stock decreased 141,452 shares and capital in excess of par value of common stock increased \$3,811,000 as the result of the sale of 130,300 shares to the Thrift Plan Trustee and the distribution of 11,152 shares under the Incentive Compensation Plan.

NOTE 7 — LEASE RENTALS, COMMITMENTS AND CONTINGENT LIABILITIES

Rentals on leases covering bulk and service stations, tank cars, office space and other facilities entering into the determination of net income follow:

	1975	1974
Financing leases	\$ 42,542,000	\$45,310,000
Other leases	57,985,000	47,859,000
Total rentals	100,527,000	93,169,000
Less subleasing income	26,339,000	25,681,000
Net rentals	\$ 74,188,000	\$67,488,000

Contingent rentals included above amounted to \$4,233,000 in 1975 and \$2,845,000 in 1974, and are generally based on the volume of motor fuel sold through bulk and service stations. Most station leases have renewal options for varying periods at monthly rentals at least equal to the rentals paid during the primary lease term. Some of these leases include purchase options exercisable after a specified number of years. Basic rental commitments (net of subleasing income) under noncancelable leases at December 31, 1975, the related subleasing income and present values of non-capitalized financing lease commitments at December 31, 1975 and 1974, follow:

	Basic Rental Commitments (Net of Subleasing Income)			Subleasing Income
	Marketing Properties	Other Properties	Total	
	(in thousands)			
All leases				
1976	\$ 36,472	\$ 9,186	\$ 45,658	\$ 9,222
1977	30,652	8,719	39,371	8,539
1978	27,919	8,338	36,257	8,032
1979	27,012	7,080	34,092	7,371
1980	23,090	7,190	30,280	6,222
1981-1985	95,994	28,803	124,797	20,542
1986-1990	60,915	13,849	74,764	4,129
1991-1995	22,920	1,810	24,730	—
Remaining years	1,650	907	2,557	—
Total	\$326,624	\$85,882	\$412,506	\$64,057

Financing leases

Total commitments	\$305,770	\$73,958	\$379,728	\$52,295
Present values:				
December 31, 1975	\$202,088	\$50,005	\$252,093	\$41,621
December 31, 1974	\$219,958	\$53,168	\$273,126	\$48,170

The weighted average interest rate used in determining the present values was 6.3% for both 1975 and 1974, with rates ranging from 2.8% to 10.0%.

The effect upon net income of capitalizing all non-capitalized financing leases is not presented since it is less than 3% of the average net income for the most recent three years.

At December 31, 1975, the Company was contingently liable for \$175,934,000 of obligations of other companies. In addition, the Company has contingent liabilities with respect to claims and commitments arising from agreements with pipeline companies in which it holds stock interests whereby it may be required to provide such companies with additional funds through advances against future charges for transportation of crude oil or petroleum products. In connection with the generation in foreign transactions over a period of time several years ago of a cash fund, part of which was used for political contributions, events subject to U.S. taxation may have occurred which were neither reflected on the books of the Company nor as to which taxes were paid. Following voluntary disclosures in October 1973 to the Internal Revenue Service, it commenced an investigation to determine whether there may have been violations of the tax fraud and allied provisions of the Internal Revenue Code. That investigation is continuing, and has not been limited to the circumstances surrounding the generation of the cash fund and the making of political contributions. In September 1975, the United States District Court for the Northern District of Oklahoma, at the request of the United States De-

partment of Justice, organized a grand jury for the purpose of investigating the foregoing matters. A number of suits are also pending in various courts in which the Company or a subsidiary appears as plaintiff or defendant, including a federal antitrust proceeding seeking to force divestiture of the properties acquired from Tidewater Oil Company in July 1966. A lower court ruling, subsequently sustained by the U.S. Supreme Court, held that the acquisition was illegal and that some divestiture would be required. Under date of January 9, 1976, the Company and The Oil Shale Corporation ("TOSCO") entered into an agreement, which has subsequently been approved by the Court, covering the purchase by TOSCO of a large portion of the properties acquired from Tidewater Oil Company. The closing of the sale under this agreement, which is contingent upon certain conditions being met, is scheduled for April 1, 1976.

While it is impossible to estimate the ultimate liability in respect to contingent liabilities, the Company is of the opinion that any liability for which provision has not been made will not have a materially adverse effect on its financial position.

NOTE 8 — RETIREMENT INCOME PLANS

The parent company and its subsidiaries have retirement plans covering substantially all of their employees. These plans are being funded based on pension costs accrued as determined by actuarial studies. Charges to income for such plans were \$39,738,000 for 1975 and \$27,186,000 for 1974, which include amortization of prior service costs over a 10-year period for the parent company's plan and over a 25-year period for subsidiaries' plans. The increase in costs is primarily due to wage increases and to revising the parent company's plan effective January 1, 1975, to eliminate all employee contributions, to broaden the earnings base used in the computation of retirement income and to liberalize the refund schedule. The Employee Retirement Income Security Act of 1974 is not expected to have any significant effect on the Company's retirement income plan costs.

NOTE 9 — INCENTIVE COMPENSATION PLAN

Under the Company's Incentive Compensation Plan, adopted in 1965, a provision of \$4,585,000, which was substantially less than the maximum permitted under the plan, was made against 1975 earnings in anticipation of awards to key employees in 1976. Earnings in 1974 included a provision of \$3,063,000 from which awards totaling \$2,785,000 were made in 1975.

NOTE 10 — FOREIGN OPERATIONS

The balance sheets include net assets applicable to

operations in foreign countries in the approximate amounts of \$1,252,761,000 for 1975 and \$949,054,000 for 1974. Earnings from such operations were \$105,211,000 for 1975 and \$175,124,000 (before accounting change) for 1974.

On December 31, 1975, the Venezuela Government assumed ownership of the Company's hydrocarbon-related assets in Venezuela. The Company accepted a settlement offer for such assets of approximately \$20,000,000 (subject to appropriate adjustment for changes in asset values), \$3,500,000 payable in cash and the balance in Government bonds having a maturity of five years. This settlement approximates the Company's net investment in these properties.

NOTE 11 — UNUSUAL ITEMS

In early 1975 the only plant of Fibers International Corporation, a 94% owned subsidiary operating in Puerto Rico, was closed because of uneconomical operations. A charge of \$62,569,000 before applicable income tax credit of \$27,975,000 was made against 1974 earnings to reduce the carrying value of these assets to estimated realizable value.

During 1974 the Company sold its interests in three chemical companies in Japan and a fertilizer company and several liquefied petroleum gas and related companies in Brazil. The profit realized from these sales aggregated \$48,797,000 before applicable income tax of \$12,466,000.

NOTE 12 — RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses, charged to income as incurred, amounted to \$33,667,000 in 1975 and \$26,840,000 in 1974.

NOTE 13 — ACCOUNTING CHANGE BY AN EQUITY COMPANY

A Canadian company which is accounted for by the equity method adopted deferred tax accounting on a retroactive basis in accordance with recommendations of the Canadian Institute of Chartered Accountants. In March 1974 the various provincial securities commissions adopted such recommendations. Accordingly, as provided in APB Opinion No. 20, the Company's equity in the undistributed earnings of the Canadian company was reduced \$32,848,000 which necessitated the reversal of \$5,209,000 of the Company's deferred taxes associated with such earnings. If the accounting change were applied retroactively, net income for 1974 would be \$429,777,000 or \$5.66 a share.

DISCUSSION OF EARNINGS FLUCTUATIONS

Year Ended December 31, 1975

The Company's earnings for 1975 declined \$87,209,000 or 20% from 1974 earnings before cumulative effect of an accounting change. Of total 1975 earnings, domestic operations accounted for \$237,357,000 or 69%, down 7% from last year, and foreign operations accounted for \$105,211,000, down 40%. The lower earnings were mainly due to substantially higher income taxes and lower earnings from worldwide chemical operations. Partially offsetting these factors was a 17% increase in worldwide crude oil production, due entirely to rising North Sea output.

Total revenues increased \$107,168,000 or 2%. This was due to an improvement of \$152,853,000 in gross operating revenues, primarily the result of higher product prices partially offset by lower product sales volumes. Equity in earnings of nonsubsidiary companies was down \$30,951,000 due to decreased earnings of foreign affiliates. Other revenues decreased \$14,734,000 mainly due to lower interest income.

Total costs and expenses increased \$194,377,000 or 4%. Of the total increase, costs and operating expenses accounted for \$71,620,000 and selling, general and administrative expenses \$10,910,000, the major portion of each being attributable to higher payroll costs. Charges for depreciation, depletion, amortization and retirements were \$52,488,000 higher, of which \$47,745,000 was dry hole costs. Taxes other than income taxes were up \$8,989,000, principally taxes levied on the production of crude oil and natural gas.

Interest and expense on indebtedness declined \$3,070,000 because of lower average outstanding debt during the year. The provision for income taxes increased \$53,440,000 with an increase of \$62,547,000 in foreign taxes and a decrease of \$9,107,000 in U.S. taxes. The higher foreign taxes are the result of increased earnings and higher foreign tax rates. The decrease in U.S. taxes is due to lower earnings and larger investment tax credit, which were substantially offset by higher taxes resulting from the Tax Reduction Act of 1975.

Year Ended December 31, 1974

The Company's earnings for 1974, before cumulative effect of an accounting change, increased \$199,366,000 or 87% over 1973. Domestic earnings, which accounted for \$254,653,000 or 59% of total 1974 earnings, were up \$113,546,000 or 80%. Foreign earnings amounted to \$175,124,000 and were up \$85,820,000 or 96%. The improved earnings were primarily due to higher prices for crude oil, natural gas liquids, natural gas and chemicals.

Total revenues increased \$2,032,182,000 or 66% including \$1,990,752,000 for gross operating revenues, primarily as the result of higher prices partially offset by lower sales volumes. Equity in earnings of nonsubsidiary companies was up \$18,835,000 due to improved earnings of foreign affiliates. Other revenues increased \$22,595,000 mainly due to higher interest income.

Total costs and expenses increased \$1,832,816,000 or 64%. This can be attributed principally to the effects of inflation since the business of the Company, measured in terms of volume of products produced, refined and sold, was generally less than for 1973. Of the total increase, costs and operating expenses accounted for \$1,509,160,000 including a net charge of \$13,772,000 against 1974 operations for unusual items, which are explained in Note 11 on page 33. Selling, general and administrative expenses increased \$21,047,000. Charges for depreciation, depletion, amortization and retirements were \$34,658,000 higher, of which \$29,615,000 was reflected in dry hole costs. Taxes other than income taxes were up \$15,798,000, primarily because of taxes levied on the production of crude oil and natural gas.

Interest and expense on indebtedness decreased \$9,507,000, the result of a decline of \$162,486,000 in long-term debt during the year. The provision for income taxes was \$261,660,000 higher, with increases of \$162,006,000 for foreign taxes and \$99,654,000 for U.S. taxes. The increased taxes are primarily due to increased earnings subject to tax and increased rates in some foreign countries.

TEN-YEAR FINANCIAL REVIEW (dollars in millions, except per share amounts)

	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966
CONSOLIDATED BALANCE SHEETS AT DECEMBER 31										
Assets										
Current assets:										
Cash and short-term investments	\$ 522.7	\$ 393.5	\$ 441.1	\$ 338.5	\$ 225.1	\$ 137.1	\$ 187.4	\$ 135.4	\$ 147.1	\$ 176.2
Notes and accounts receivable, less reserves	629.0	611.3	502.7	383.8	382.8	410.6	392.3	388.3	351.5	303.2
Inventories:										
Crude oil, petroleum products and chemicals ...	326.5	355.7	225.9	231.2	240.5	212.6	217.6	220.3	203.9	191.1
Merchandise	13.6	13.3	13.1	14.6	18.7	21.9	24.1	21.5	24.3	27.1
Materials and supplies	129.5	91.9	49.9	35.1	36.1	35.7	31.2	29.6	30.8	31.5
Total current assets	1,621.3	1,465.7	1,232.7	1,003.2	903.2	817.9	852.6	795.1	757.6	729.1
Investments and long-term receivables, less reserves ..	404.4	360.5	379.8	377.8	391.8	361.6	383.5	332.1	317.8	311.7
Properties, plants and equipment, less reserves	2,439.1	2,154.1	1,952.3	1,857.8	1,838.0	1,850.5	1,846.4	1,749.9	1,709.7	1,657.9
Prepaid and deferred charges	80.1	47.8	42.0	30.8	33.7	41.5	39.9	36.4	29.6	32.4
Total assets	4,544.9	4,028.1	3,606.8	3,269.6	3,166.7	3,071.5	3,122.4	2,913.5	2,814.7	2,731.1
Liabilities and stockholders' equity										
Current liabilities:										
Notes and accounts payable	\$ 526.3	\$ 542.9	\$ 400.7	\$ 276.5	\$ 254.5	\$ 280.3	\$ 251.1	\$ 266.8	\$ 265.8	\$ 253.8
Long-term debt — due within one year	48.0	39.0	60.6	52.7	52.2	106.1	75.9	47.1	49.9	180.9
Accrued taxes	261.9	264.9	117.7	113.1	102.5	114.5	119.7	87.5	86.3	102.5
Other accruals	47.3	42.2	41.8	40.6	36.1	28.9	27.9	27.5	27.7	34.6
Total current liabilities	883.5	889.0	620.8	482.9	445.3	529.8	474.6	428.9	429.7	571.8
Long-term debt	892.7	658.2	799.1	791.8	800.2	687.9	787.4	655.2	690.0	660.3
Deferred income taxes	201.6	72.9	64.2	61.5	63.0	57.3	59.7	68.4	70.9	62.8
Other deferred credits	64.4	66.3	63.3	41.9	41.8	36.3	51.7	63.5	61.2	46.7
Reserve for contingencies	66.4	60.0	90.4	67.0	60.7	57.4	50.5	45.2	27.6	29.9
Minority interest in consolidated subsidiaries	12.0	8.0	5.4	4.7	6.5	9.9	21.1	15.6	15.9	11.9
Stockholders' equity:										
Common stock, \$2.50 par value	190.7	190.7	190.7	190.6	190.5	190.3	190.3	189.7	179.6	173.2
Capital in excess of par value of common stock	455.1	451.3	444.0	440.8	437.2	433.3	433.3	427.4	329.2	271.9
Earnings employed in the business	1,779.0	1,636.0	1,343.9	1,211.7	1,160.9	1,125.4	1,110.4	1,076.5	1,067.9	961.1
	2,424.8	2,278.0	1,978.6	1,843.1	1,788.6	1,749.0	1,734.0	1,693.6	1,576.7	1,406.2
Less treasury stock	.5	4.3	15.0	23.3	39.4	56.1	56.6	56.9	57.3	58.5
Total stockholders' equity	2,424.3	2,273.7	1,963.6	1,819.8	1,749.2	1,692.9	1,677.4	1,636.7	1,519.4	1,347.7
Total liabilities and stockholders' equity	4,544.9	4,028.1	3,606.8	3,269.6	3,166.7	3,071.5	3,122.4	2,913.5	2,814.7	2,731.1
Stockholders' equity per share*	\$ 31.80	\$ 29.88	\$ 25.94	\$ 24.14	\$ 23.40	\$ 22.86	\$ 22.66	\$ 22.18	\$ 21.79	\$ 20.08
PROPERTIES, PLANTS AND EQUIPMENT										
Gross investment										
Exploration and production	\$2,588.9	\$2,433.3	\$2,071.6	\$1,903.0	\$1,796.4	\$1,749.5	\$1,729.6	\$1,587.8	\$1,495.9	\$1,460.6
Manufacturing	1,339.5	1,264.3	1,363.4	1,314.4	1,284.6	1,229.7	1,165.1	1,112.8	1,065.2	967.6
Transportation	419.8	342.8	316.2	286.2	276.1	279.7	278.6	276.1	271.6	272.2
Marketing	249.7	264.0	274.7	314.3	326.5	337.5	329.7	323.4	346.9	347.7
Other	114.4	106.3	98.4	96.2	95.9	96.4	93.1	93.4	88.4	97.2
	4,712.3	4,410.7	4,124.3	3,914.1	3,779.5	3,692.8	3,596.1	3,393.5	3,268.0	3,145.3
Net investment										
Exploration and production	\$1,376.9	\$1,188.8	\$ 919.8	\$ 816.4	\$ 756.7	\$ 743.2	\$ 745.5	\$ 651.3	\$ 598.4	\$ 593.3
Manufacturing	604.2	566.7	649.0	661.8	684.8	682.9	668.9	660.2	644.0	567.9
Transportation	237.7	169.3	152.0	126.5	125.6	135.2	142.8	146.9	150.9	161.2
Marketing	164.8	178.0	185.5	205.6	221.2	237.5	237.8	238.0	265.6	274.4
Other	55.5	51.3	46.0	47.5	49.7	51.7	51.4	53.5	50.8	61.1
	2,439.1	2,154.1	1,952.3	1,857.8	1,838.0	1,850.5	1,846.4	1,749.9	1,709.7	1,657.9

*Adjusted for two-for-one stock split in 1969.

Note — Financial data for 1970, 1969, 1968 and 1967 have been restated to reflect the adoption in 1971 of equity accounting for investments.

Note — In 1973 the valuation method for inventories of certain petroleum products and chemicals, previously calculated on the last-in, first-out monthly basis, was changed to the last-in, first-out annual basis.

	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966
CONSOLIDATED STATEMENTS OF INCOME										
Gross operating revenues:										
Petroleum products	\$2,716.0	\$2,433.4	\$1,388.7	\$1,233.7	\$1,188.2	\$1,146.2	\$1,067.8	\$1,044.2	\$ 999.0	\$ 868.7
Chemicals	981.8	1,184.2	807.1	589.6	495.0	477.2	472.7	446.6	398.2	357.2
Crude oil	937.6	927.2	416.5	327.2	320.8	293.2	338.0	304.4	276.9	253.8
Natural gas (including helium)	280.0	216.6	183.9	180.4	169.3	165.2	137.8	133.8	137.5	129.9
Other sales and services	218.2	219.3	193.8	181.8	189.9	191.3	185.7	177.9	170.0	150.7
Total gross operating revenues	5,133.6	4,980.7	2,990.0	2,512.7	2,363.2	2,273.1	2,202.0	2,106.9	1,981.6	1,760.3
Other revenues (including equity in earnings of nonsubsidiary companies)	79.3	125.0	83.5	54.8	49.1	38.2	30.0	20.3	31.7	24.1
Total revenues	5,212.9	5,105.7	3,073.5	2,567.5	2,412.3	2,311.3	2,232.0	2,127.2	2,013.3	1,784.4
Costs and operating expenses	3,668.8	3,597.2	2,088.0	1,711.0	1,615.3	1,541.2	1,486.7	1,410.4	1,276.1	1,124.6
Selling, general and administrative expenses	322.5	311.6	290.5	298.1	288.3	288.0	270.5	267.9	245.9	223.8
Depreciation, depletion, amortization and retirements	326.0	273.6	238.9	223.1	201.3	198.4	195.1	187.0	170.1	158.1
Taxes other than income taxes	93.8	84.8	69.0	63.9	59.7	57.6	53.8	51.8	49.3	42.3
Interest and expense on indebtedness	49.8	52.8	62.3	58.8	62.6	54.2	49.6	40.5	43.0	32.0
Provision for income taxes	409.4	356.0	94.4	64.2	52.8	52.0	46.2	42.7	64.4	65.2
Total costs and expenses	4,870.3	4,676.0	2,843.1	2,419.1	2,280.0	2,191.4	2,101.9	2,000.3	1,848.8	1,646.0
Income before extraordinary items and accounting change	342.6	429.7	230.4	148.4	132.3	119.9	130.1	126.9	164.5	138.4
Extraordinary items and accounting change	—	(27.6)	—	—	—	(8.7)	—	6.9	—	7.1
Net income	342.6	402.1	230.4	148.4	132.3	111.2	130.1	133.8	164.5	145.5
Per average share outstanding:*										
Income before extraordinary items and accounting change	\$ 4.50	\$ 5.66	\$ 3.05	\$ 1.98	\$ 1.78	\$ 1.62	\$ 1.76	\$ 1.74	\$ 2.38	\$ 2.07
Net income	\$ 4.50	\$ 5.30	\$ 3.05	\$ 1.98	\$ 1.78	\$ 1.50	\$ 1.76	\$ 1.83	\$ 2.38	\$ 2.18
Dividends per share*	\$ 1.60	\$ 1.45	\$ 1.30	\$ 1.30	\$ 1.30	\$ 1.30	\$ 1.30	\$ 1.27½	\$ 1.17½	\$ 1.10
Income before extraordinary items and accounting change:										
As percent of average total assets	8.3	11.2	6.9	4.6	4.3	3.9	4.4	4.5	5.9	6.0
As percent of total revenues	6.6	8.4	7.5	5.8	5.5	5.2	5.8	6.0	8.2	7.8
Percent of total revenues from outside U.S.	18.2	23.7	21.5	16.1	17.4	13.4	12.2	11.1	9.3	8.9

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Source										
Funds from operations	\$ 723.9	\$ 758.4	\$ 469.3	\$ 367.4	\$ 332.7	\$ 316.6	\$ 317.4	\$ 317.5	\$ 339.5	\$ 303.8
Long-term debt	310.6	76.9	80.6	49.7	257.0	10.0	210.9	152.0	136.1	432.0
Property sales and retirements (including extraordinary items)	86.3	91.2	24.8	28.6	43.7	31.1	27.1	47.9	55.3	14.7
Sales of investments (including extraordinary items)	3.7	20.5	9.6	26.2	14.3	23.1	5.3	32.9	19.7	19.6
Capital stock	7.6	18.0	11.6	19.8	20.8	.5	6.8	108.7	64.9	9.6
Other	1.5	9.7	19.8	4.0	6.5	2.8	17.4	8.0	44.8	.7
	1,133.6	974.7	615.7	495.7	675.0	384.1	584.9	667.0	660.3	780.4
Application										
Properties, plants and equipment:										
Exploration and production	\$ 489.8	\$ 450.6	\$ 245.0	\$ 196.0	\$ 143.3	\$ 132.3	\$ 207.3	\$ 171.6	\$ 117.5	\$ 136.0
Manufacturing	101.2	105.5	49.7	48.5	58.3	74.5	77.8	85.0	136.3	230.9
Transportation	80.8	38.0	24.8	11.4	7.8	6.2	6.5	8.5	1.3	68.6
Marketing	11.5	13.9	6.7	6.1	11.3	20.7	21.8	17.4	19.1	125.6
Other	10.6	10.0	2.8	2.7	4.3	5.7	3.2	6.7	5.6	18.6
Total	693.9	618.0	329.0	264.7	225.0	239.4	316.6	289.2	279.8	579.7
Investments	35.3	9.5	22.7	6.2	23.2	7.2	66.1	18.9	18.0	32.4
Reduction in long-term debt	76.1	225.1	73.3	58.1	144.7	109.5	78.8	186.8	106.4	185.8
Cash dividends	121.8	110.0	98.2	97.6	96.8	96.3	96.2	92.7	81.1	73.5
Other	45.4	47.3	.8	6.7	15.6	21.6	15.4	41.1	4.4	31.3
Increase (decrease) in working capital	161.1	(35.2)	91.7	62.4	169.7	(89.9)	11.8	38.3	170.6	(122.3)
	1,133.6	974.7	615.7	495.7	675.0	384.1	584.9	667.0	660.3	780.4

*Adjusted for two-for-one stock split in 1969.

Note — Financial data for 1970, 1969, 1968 and 1967 have been restated to reflect the adoption in 1971 of equity accounting for investments.

	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966
REVENUES FROM CHEMICALS										
Feedstocks and special chemicals	\$ 330.2	\$ 420.8	\$ 181.7	\$ 131.7	\$ 112.1	\$ 130.5	\$ 129.2	\$ 113.3	\$ 94.1	\$ 84.0
Rubber chemicals	162.9	172.5	111.4	91.7	83.7	72.1	69.6	70.2	59.4	62.6
Fabricated products	151.9	138.5	110.0	100.0	86.6	94.0	95.3	103.7	105.8	90.5
Plastic resins	130.3	131.0	94.9	62.4	51.5	51.2	50.0	41.8	33.0	30.5
Fertilizers	114.3	160.0	158.0	100.6	90.9	71.8	69.3	67.5	74.1	82.6
Synthetic fibers	92.2	161.4	151.1	103.2	70.2	57.6	59.3	50.1	31.8	7.0
	<u>981.8</u>	<u>1,184.2</u>	<u>807.1</u>	<u>589.6</u>	<u>495.0</u>	<u>477.2</u>	<u>472.7</u>	<u>446.6</u>	<u>398.2</u>	<u>357.2</u>

OTHER DATA										
Shares outstanding at year-end — thousands*	76,244	76,102	75,709	75,387	74,741	74,062	74,041	73,776	69,717	67,118
Number of stockholders at year-end	126,865	131,621	135,966	153,292	166,012	172,979	157,052	145,665	139,670	139,224
Total payroll including employee benefits	\$ 528.8	\$ 478.9	\$ 415.1	\$ 387.3	\$ 352.8	\$ 335.0	\$ 326.8	\$ 328.9	\$ 312.3	\$ 281.8
Number of employees at year-end	30,506	30,802	33,429	35,265	33,280	32,208	32,660	35,359	35,724	34,667

*Adjusted for two-for-one stock split in 1969.

TEN-YEAR OPERATING REVIEW

NET PRODUCTION OF LIQUID RAW MATERIALS — thousands of barrels daily

Crude Oil

United States										
Texas	54.2	56.3	57.7	57.7	54.9	54.6	51.8	53.7	54.4	52.8
Louisiana	18.0	19.6	21.5	23.3	24.8	29.6	28.1	29.3	28.3	24.9
Oklahoma	10.4	11.8	13.7	17.5	15.6	15.5	16.2	17.7	20.0	22.4
New Mexico	6.9	7.4	8.0	9.0	9.8	10.4	10.3	10.3	10.1	10.3
Wyoming	4.2	4.5	2.0	2.7	3.7	6.3	6.2	3.6	3.3	2.6
Alaska	4.2	4.1	4.7	4.5	5.5	5.6	6.9	8.9	3.9	.2
Arkansas	4.1	3.1	2.4	2.7	2.6	2.7	2.7	1.9	1.9	1.9
Other states	16.4	16.7	12.3	12.8	13.2	14.2	15.4	14.5	12.9	12.8
	<u>118.4</u>	<u>123.5</u>	<u>122.3</u>	<u>130.2</u>	<u>130.1</u>	<u>138.9</u>	<u>137.6</u>	<u>139.9</u>	<u>134.8</u>	<u>127.9</u>
Outside United States										
Europe	63.1	11.5	10.7	11.0	2.3	—	—	—	—	—
Africa	33.7	38.1	35.5	23.2	25.5	20.0	40.0	30.1	25.4	23.1
Latin America	16.0	21.5	23.8	20.2	20.2	21.3	22.0	26.4	34.0	36.1
Canada	8.8	10.5	14.0	14.0	13.1	12.2	10.4	9.7	9.0	8.3
Middle East	6.2	9.1	9.1	12.6	14.0	34.4	35.3	32.0	33.0	37.2
	<u>127.8</u>	<u>90.7</u>	<u>93.1</u>	<u>81.0</u>	<u>75.1</u>	<u>87.9</u>	<u>107.7</u>	<u>98.2</u>	<u>101.4</u>	<u>104.7</u>
Total crude oil	<u>246.2</u>	<u>214.2</u>	<u>215.4</u>	<u>211.2</u>	<u>205.2</u>	<u>226.8</u>	<u>245.3</u>	<u>238.1</u>	<u>236.2</u>	<u>232.6</u>

Natural Gas Liquids

United States										
Canada	125.9	132.2	134.8	137.4	135.4	131.8	130.3	138.7	132.1	125.2
Latin America	11.8	12.4	12.5	11.8	12.8	12.9	11.2	8.9	8.9	8.4
Europe	1.8	2.3	2.3	2.4	2.6	2.2	1.1	1.2	1.2	1.2
	.3	.3	.3	.3	.2	.2	—	—	—	—
Total natural gas liquids	<u>139.8</u>	<u>147.2</u>	<u>149.9</u>	<u>151.9</u>	<u>151.0</u>	<u>147.1</u>	<u>142.6</u>	<u>148.8</u>	<u>142.2</u>	<u>134.8</u>
Total all liquids	<u>386.0</u>	<u>361.4</u>	<u>365.3</u>	<u>363.1</u>	<u>356.2</u>	<u>373.9</u>	<u>387.9</u>	<u>386.9</u>	<u>378.4</u>	<u>367.4</u>

Note — Operating data include the results, in proportion to the Company's stock interests, of nonsubsidiary companies owned 20% or more.

	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966
NET NATURAL GAS PRODUCTION —										
millions of cubic feet daily										
United States	1,312	1,433	1,481	1,534	1,566	1,591	1,436	1,429	1,460	1,397
Canada	210	238	222	200	179	179	155	127	116	96
Europe	125	116	94	85	58	40	14	4	4	5
Latin America	18	21	28	34	41	48	33	—	—	—
	<u>1,665</u>	<u>1,808</u>	<u>1,825</u>	<u>1,853</u>	<u>1,844</u>	<u>1,858</u>	<u>1,638</u>	<u>1,560</u>	<u>1,580</u>	<u>1,498</u>
WELL COMPLETIONS — Net										
United States — Exploratory	44	53	38	37	21	25	24	24	17	14
— Development	172	136	156	86	70	67	118	98	80	116
Outside United States — Exploratory	43	48	46	37	30	30	26	32	20	30
— Development	103	48	27	39	39	14	19	27	28	63
	<u>362</u>	<u>285</u>	<u>267</u>	<u>199</u>	<u>160</u>	<u>136</u>	<u>187</u>	<u>181</u>	<u>145</u>	<u>223</u>
OIL AND GAS WELLS — Net										
United States — Oil	6,191	6,184	5,806	5,795	6,004	6,316	6,457	6,387	6,590	6,808
— Gas and condensate	2,122	2,086	2,006	1,945	1,936	1,964	1,997	1,961	1,953	1,946
Outside United States — All wells	805	878	851	815	850	829	974	955	1,061	1,033
	<u>9,118</u>	<u>9,148</u>	<u>8,663</u>	<u>8,555</u>	<u>8,790</u>	<u>9,109</u>	<u>9,428</u>	<u>9,303</u>	<u>9,604</u>	<u>9,787</u>
NET OIL AND GAS ACREAGE — thousands of acres										
United States	7,197	7,203	6,792	5,793	5,382	5,275	4,728	4,618	4,333	4,666
Canada	7,814	7,687	7,444	6,967	6,507	6,273	5,862	4,600	3,563	3,476
Latin America	12,228	13,013	5,830	3,311	696	3,186	4,895	5,008	1,910	2,259
Europe	1,574	1,604	1,397	1,267	1,227	1,424	1,394	1,375	1,238	1,234
Africa	7,994	13,158	9,906	13,816	8,403	9,009	13,860	16,999	18,398	20,739
Middle East	1,753	3,031	3,031	2,893	13,852	13,852	12,762	12,787	2,102	638
Southeast Asia	28,564	32,086	37,348	31,018	38,852	47,106	57,627	40,000	—	—
Australia	1,511	5,335	6,072	5,969	6,272	7,290	9,290	10,833	16,978	26,690
	<u>68,635</u>	<u>83,117</u>	<u>77,820</u>	<u>71,034</u>	<u>81,191</u>	<u>93,415</u>	<u>110,418</u>	<u>96,220</u>	<u>48,522</u>	<u>59,702</u>
REFINERY RUNS — thousands of barrels daily										
United States — Crude oil	368	373	395	386	371	364	359	356	335	292
— Natural gas liquids	133	150	149	159	157	162	158	159	162	159
Outside United States — All liquids	54	57	66	64	77	93	88	87	68	60
	<u>555</u>	<u>580</u>	<u>610</u>	<u>609</u>	<u>605</u>	<u>619</u>	<u>605</u>	<u>602</u>	<u>565</u>	<u>511</u>
REFINERY CAPACITY — thousands of barrels daily										
United States — Crude oil	408	408	404	404	398	398	390	390	410	410
— Natural gas liquids	165	165	165	165	165	165	165	165	165	165
Outside United States — All liquids	82	87	85	81	100	100	148	147	97	133
	<u>655</u>	<u>660</u>	<u>654</u>	<u>650</u>	<u>663</u>	<u>663</u>	<u>703</u>	<u>702</u>	<u>672</u>	<u>708</u>
PETROLEUM PRODUCTS SOLD — thousands of barrels daily										
United States										
Automotive gasoline	304	286	299	323	311	314	294	279	252	222
Aviation fuels	24	30	27	27	27	35	38	36	36	25
Distillates — including kerosene	99	100	95	101	98	106	109	120	111	97
Liquefied petroleum gases	97	92	91	111	106	114	107	106	124	135
Other products	31	33	41	43	41	47	48	44	43	38
	<u>555</u>	<u>541</u>	<u>553</u>	<u>605</u>	<u>583</u>	<u>616</u>	<u>596</u>	<u>585</u>	<u>566</u>	<u>517</u>
Outside United States	103	107	137	128	141	131	132	114	83	66
Total	<u>658</u>	<u>648</u>	<u>690</u>	<u>733</u>	<u>724</u>	<u>747</u>	<u>728</u>	<u>699</u>	<u>649</u>	<u>583</u>
MARKETING OUTLETS	17,941	18,786	21,438	23,890	24,562	25,536	25,914	26,155	26,513	27,240

Note — Operating data include the results, in proportion to the Company's stock interests, of nonsubsidiary companies owned 20% or more.

DIRECTORS

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R. G. Rhodes, General Manager Rubber Chemicals

K. L. Smalley, General Manager Europe-Africa Region, International Chemicals (Brussels)

R. G. Wallace, General Manager Plastics (Houston)

C. M. Wilson, General Manager Asia Region, International Chemicals (Hong Kong)

R. G. Askew, Manager Planning and Budgeting

R. M. Dixon, Manager Administration

W. H. Guthrie, Manager Business Promotion

J. H. Presnell, Manager Operations Analysis and Control

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Sloan K. Childers, Vice President Public Affairs

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Carstens Slack, Vice President Washington Office

W. R. Thomas, Vice President Human Resources

H. D. Trotter, Vice President Engineering and Services

C. H. Trotter, Manager Management Services

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H. B. Stead, Comptroller

Harvey W. Thompson, Secretary

M. L. Collins, Manager Tax, Insurance and Claims

Kieffer Davis, M.D., Medical Director

R. S. Dickson, Manager Computing

D. R. Hynes, Manager Purchasing

W. R. Lusbey, Manager Aviation

H. D. Powell, Manager Operations Analysis and Control

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AND AFFILIATES**

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PETROCHIM
PHILLIPS FIBERS CORPORATION
PHILLIPS PETROLEUM COMPANY EUROPE-AFRICA
PHILLIPS PIPE LINE COMPANY
PHILLIPS PUERTO RICO CORE INC.
PHILTANKERS INC.
SEALRIGHT CO., INC.

OFFICES

PRINCIPAL OFFICES

Bartlesville, Oklahoma 74004
80 Broadway, New York, New York 10005
306 South State Street, Dover, Delaware 19901

STOCK TRANSFER OFFICES

Phillips Petroleum Company
80 Broadway, New York, New York 10005
Phillips Petroleum Company
15 Exchange Place
Jersey City, New Jersey 07302
Montreal Trust Company
15 King Street West
Toronto, Ontario, Canada M5H 1B4

REGISTRARS

Manufacturers Hanover Trust Company
40 Wall Street
New York, New York 10005
Canada Permanent Trust Company
20 Eglinton Avenue West
Toronto, Ontario, Canada M4R 2E2



PRODUCTS AND SERVICES

Sold by Phillips Petroleum Company and Its Subsidiaries

PRODUCTS: AUTOMOTIVE GASOLINES ■ DIESEL FUEL ■ AVIATION FUELS: gasolines, commercial and military jet fuels, anti-icing additive ■ STOVE OIL NO. 1 (Range oil) ■ FURNACE OIL NO. 2 ■ RESIDUAL FUEL OILS ■ LIQUEFIED PETROLEUM GASES: motor fuel (propane, butane, butane-propane mixtures), commercial propane, butane, butane-propane mixtures, normal and isobutane ■ KEROSENE ■ CRUDE OIL ■ NATURAL GAS ■ LIQUEFIED NATURAL GAS ■ LUBRICANTS: automotive, industrial, farm and ranch, marine and fleet lubricants; aviation and snowmobile oils ■ TIRES AND TUBES: passenger car, truck, trailer ■ BATTERIES: automobile, truck and bus, farm, marine, small vehicles ■ AUTOMOTIVE ACCESSORIES: anti-freeze, auto lamps, spark plugs, wiper blades, filters, belts ■ FERTILIZERS: Anhydrous ammonia, Aqua ammonia, Ammonium nitrate, Urea, Urea-ammonium nitrate solution, Nitrate solution, Ammonium phosphates, Di-ammonium phosphate, Triple super phosphate, Phosphoric acid, Super Phosphoric acid, Muriate of potash, Mixed liquid fertilizer solutions ■ FEED INGREDIENTS: urea feed compounds, urea liquor, ammonium polyphosphate ■ BLASTING MATERIALS: industrial ammonium nitrate ■ ASPHALT ■ WAX ■ HELIUM: high-purity gas and liquid and cryogenic hardware ■ RUBBER CHEMICALS: Butadiene and butylenes, Carbon black, Synthetic elastomers and plastomers, Extender oils, Mercaptans ■ CONSTRUCTION MATERIALS: Pavement reinforcing fabric ■ PLASTIC RESINS: Polyethylenes, Polypropylenes, Polyvinylchloride, Polystyrene, Polyphenylene sulfide, Butadiene-styrene copolymers ■ RIGID PACKAGING: paperboard and plastic containers for consumer and industrial products ■ RIGID PACKAGING MACHINERY ■ POLYPROPYLENE PACKAGING MATERIAL: decorative and functional ■ PLASTIC TUBULAR GOODS: plastic pipe and fittings, conduit and duct, corrugated conduit ■ CUSTOM FABRICATED PLASTIC PRODUCTS: for the automotive, appliance, radio and TV industries ■ OTHER PLASTIC PRODUCTS: Horticulture ware, Bakery handling equipment, Plastic egg flats, Fifth wheel liner, Guy wire guard ■ COATING OR LAMINATING PLASTICS AND OTHER MATERIALS: to paper, foil and other substrates for the paper, packaging, automotive, food, locker and specialty fields ■ RELEASE PAPER ■ SPECIAL CHEMICALS: Aliphatic solvents such as pentanes, hexanes, heptanes, Benzene, Binder for solid rocket fuels, Butene-1, Calcium petroleum sulfonate, Cyclohexane, Ethylene, Furan, High-purity hydrocarbons for research and development (available in several grades of purity) — aromatics, cycloolefins, cycloparaffins, diolefins, olefins, paraffins, Hydrocarbon aerosol propellants, Methylvinylpyridine, Mixed xylenes, Odorless solvents, Orthoxylene, Paraffinic naphtha, Paraxylene, Petro-sulfur compounds, Odorants for natural gas and LP-gas, Mercaptan intermediates (for agricultural chemicals and other uses) such as ethyl, n-propyl, n-butyl and n-dodecyl mercaptans, and ethylthioethanol, Sulfolane and Sulfolene, 2-Mercaptoethanol, Polymerization solvents, Propylene, Reference fuels, Special fuels, Sulfur, Sulfuric acid, Toluene, Viscosity index improver ■ TUBING AND METAL PRODUCTS: Stainless steel and nickel alloy tubing for aerospace and other industries, Custom fabricated parts for automotive, refrigeration and other industries, Patio and porch furniture ■ SYNTHETIC FIBERS: Olefin, Polyester ■ CARPET BACKING ■ DRILLING MUD AND CEMENT ADDITIVES

SERVICES: Process analysis, control and information systems and equipment for petroleum, petrochemical and chemical industries ■ TANKER HAULING ■ TERMINALING SERVICES ■ LPG IMPORTING SERVICES ■ ENGINEERING SERVICES ■ METALLURGICAL CONSULTING SERVICES ■ LIQUEFIED NATURAL GAS TECHNOLOGICAL SERVICES ■ OVERALL ENERGY-RELATED PROJECT MANAGEMENT ■

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